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Growing with Energy

Innergex Renewable Energy Inc.

2008 Annual Report

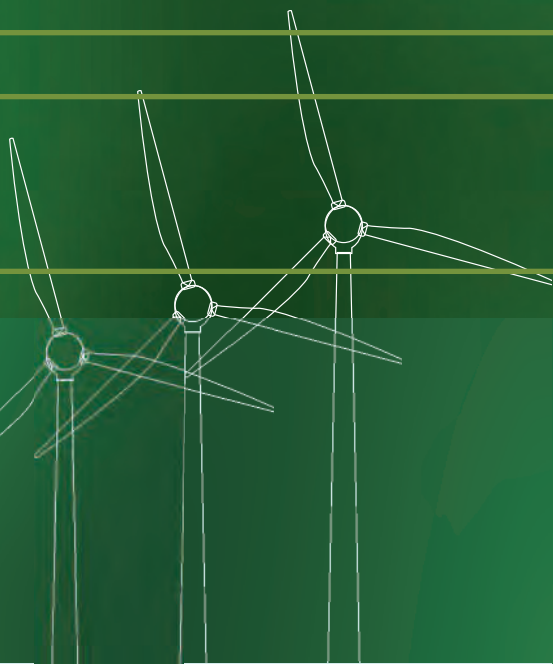


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INNERGEX

Energie renouvelable
Renewable Energy



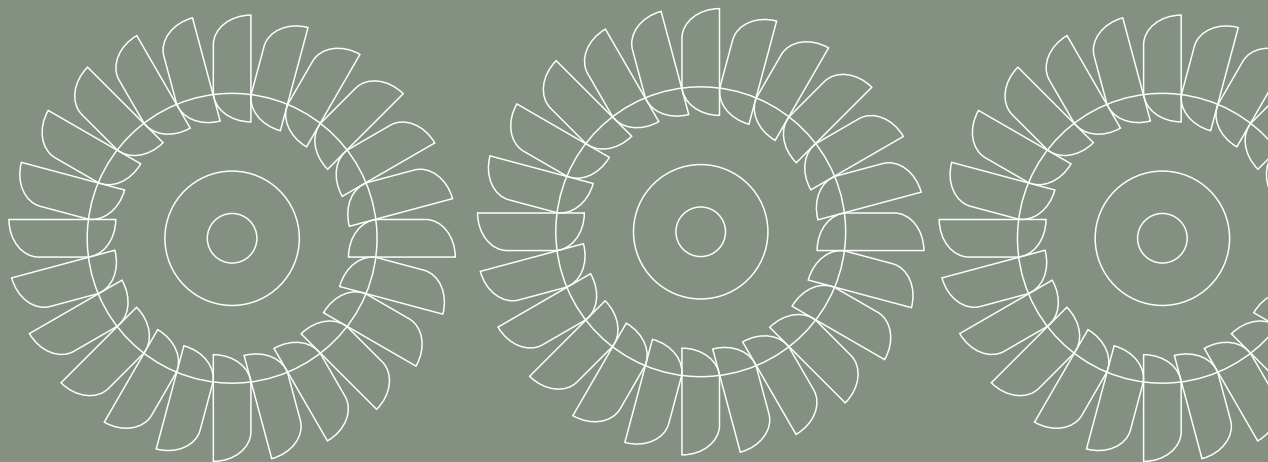
Profile and mission

Our mission: to profitably develop, own and operate power generation facilities that produce electricity from renewable sources of energy.

Innergex Renewable Energy Inc. (TSX: INE) ("Innergex" or "The Corporation") is one of the most active corporations in the Canadian renewable power industry. It develops, owns, and operates facilities in North America, with a focus on run-of-river hydroelectric facilities and wind energy projects.

Its strategy for creating shareholder value is to acquire or develop high quality power generation facilities that benefit from low operating and management costs and simple and proven technology, generating sustainable and increasing cash flows, with the objective of achieving appropriate returns on invested capital.

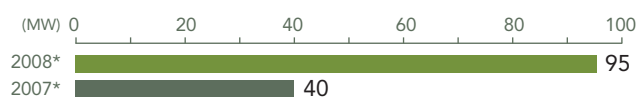
The Corporation's management team has been active in the renewable power industry since 1990 and over the years, has built a strong reputation. It is guided by the principles of sustainable development and ethical management favouring equitable treatment and positive results for the communities it partners with.



Highlights

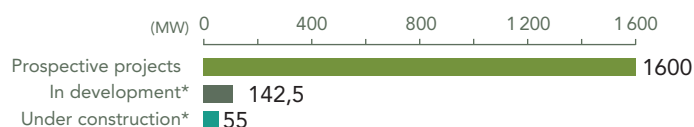
In 2008, Innergex Renewable Energy more than doubled its total net installed capacity.

Operating net installed capacity



* As of December 31 of each year.

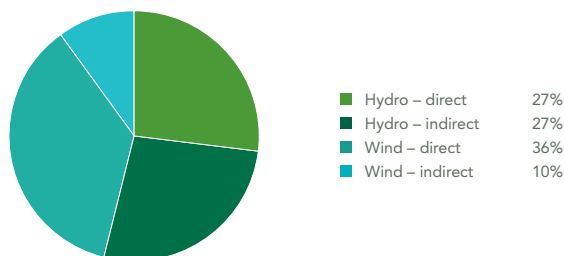
Potential net installed capacity



* Projects already secured with power purchase agreements or by a standing offer program.

Asset diversification

Subsections for direct and indirect* net capacity



* Through 16.1% interest in Innergex Power Income Fund.

Highlights

- Umbata Falls (**23 MW**) and Carleton (**109.5 MW**) started operation.
- Construction for Ashlu Creek (**49.9 MW**) and Fitzsimmons Creek (**7.5 MW**) continues.
- Carleton, Umbata Falls and Ashlu Creek executed **ecoENERGY** Initiative agreements.
- Five hydro projects (**195 MW**) submitted to the 2008 BC Clean Power Call.

Financial highlights

(in \$ millions, except for Power generation, in MW)

For the 12 month period ended December 31, 2008	
Power generation	68,118
Operation revenues	4.9
Management fees	2.3
Payments received on Fund distributions	4.7

Message to shareholders

Innergex Renewable Energy completes its first year of activity

Dear shareholders,

Our assessment is positive for 2008, marking Innergex's first complete financial year. This year allowed us to see the first concrete results of our development strategy, ensuring us that we will see significant revenues over the coming years.

In spite of the financial crisis, Innergex achieved its primary objective with the commercial operation of two facilities starting in 2008: Umbata Falls hydro (23 MW) and the Carleton wind farm (109.5 MW). Although positive impacts will be more apparent in 2009, with additional aggregated operating revenues of approximately \$14 million, having these two facilities in commercial operation is an important step forward for Innergex.

Taking into consideration the Glen Miller facility, already in operation, the two new facilities, and the 16.1% interest in the Innergex Power Income Fund ("the Fund"), the Innergex energy portfolio increased from a net installed capacity of 40 MW to 95 MW in 2008.

A strategy that will generate additional cash flows

In 2008, we supervised the work at two other facilities under construction: Ashlu Creek and Fitzsimmons Creek. With commercial operation start dates foreseen for 2009 and 2010, these facilities will contribute to a new rise in net installed capacity of 55 MW. The Innergex team was also busy continuing development of five projects already benefiting from power purchase agreements ("PPA"). These projects are expected to be in operation by 2012. In addition, we continue to actively seek opportunities in order to ensure that we have a pipeline of prospective projects to grow and create additional value for investors.

In November 2008, Innergex submitted proposals for five new projects that represent a total installed capacity of 195 MW in British Columbia, under the Clean Power Call request for proposals ("RFP") for 5,000 GWh. We should have a response on

these projects by the summer of 2009. Over the course of the year, we continued to acquire and identify new sites in order to submit proposals under the BC Hydro's Standing Offer Program, or other RFPs for clean energy in Quebec and Ontario.

In Quebec, we engaged in discussions with First Nations and local communities to submit proposals for wind projects under the Québec 250 MW *Community Wind RFP* and the 250 MW *Aboriginal Wind RFP*. Innergex will consider participating once the RFP is announced.

Innergex and the financial crisis

The last two quarters of 2008 were marked with the debut of a financial market crisis that affected access to credit and financing costs of debt.

The financing for construction and operating projects is already entirely in place, leaving only the Fitzsimmons facility that is not yet financed. At the time of this annual report, Innergex has obtained a financing offer from a Canadian financial institution, and it is within reason to expect that syndication and financing will be completed before the end of the second quarter of 2009.

Further, since February 27, 2009, Innergex has a one-year \$30 million revolving credit facility, which is \$10 million more than at the end of last year. This increase was possible thanks in particular to the addition of the Laurentian Bank of Canada, which joined the syndicate of lenders.

This capacity to increase available credit and to interest a new financial institution testifies to the value that our financial partners grant our financial management and the confidence they have in our business model and growth strategy.

Insofar as the future financing needs are in place, we will be in a position to begin construction on certain 2009 projects in order to further increase our revenue base.

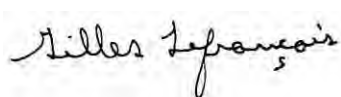
The future looks green thanks to increasing demand for renewable energy

In 2009, we will supervise the operation of facilities in place and progress on the construction and development of projects. To ensure the growth of Innergex and to remain a leader in the industry, we will focus on markets well-known to Innergex, such as Quebec, Ontario and British Columbia, and where the governments are issuing an increasing number of RFPs for power production from renewable energy sources. We historically have been successful in our project development in those provinces.

Contrary to the situation in Canadian provinces, where we have the advantage of negotiating long-term power purchase agreements, electricity sales in the United States are generally negotiated on the spot market, with fluctuating electricity sale prices. Thus, the Canadian market is more in line with our growth strategy, which is based on long-term revenue projections. However, demand in the United States is strong, making it an interesting market. We will certainly be on the lookout for any growth opportunities which might arise.

In 2009, Innergex can count on business opportunities in regions where the company has already been successful, and in energy sectors where it is established. We have a number of growth possibilities that will enable us to offer interesting value to our investors while contributing to the development of an industry in line with sustainable development.

We thank all our partners, our investors, the members of our Board of Directors and the management team at Innergex for their commitment to the success of Innergex.



Gilles Lefrançois, CA
Executive Chairman of
the Board of Directors



Michel Letellier, MBA
President and Chief Executive
Officer and Director



The Glen Miller run-of-river hydro facility under construction in Trenton, Ontario.



Renaud de Batz, Vice President Eastern Region,
Hydro Energy, in discussion with a team at
Umbata Falls in Ontario.



The new Carleton
wind farm in Carleton-sur-Mer,
Québec.



Members of the construction
team working at the Ashlu Creek
facility in British Columbia.

Activity Review

Innergex Renewable Energy continues its growth, producing clean power.

40 dB

The whisper of the wind

The sound level emitted by the Carleton wind farm, as perceived in the vicinity of nearby houses or cottages, **does not exceed 40 decibels (dB)**. It's the equivalent of a whisper heard in a library.



MW

A matter of megawatts

	Ashlu Creek hydro facility	Umbata Falls hydro facility	Carleton wind farm
Capacity in MW	49.9 MW	23.0 MW	109.5 MW
Meets the electricity needs of about*	10,000 households	4,600 households	21,900 households



* Based on an estimated average power consumption of 1 MW per 200 households.

197.5

Additional capacity in megawatts covered by contracts

Growth of net installed capacity in 2008

137.5%

A team with a proven strategy

Definitive results thanks to the expertise of a strong team.

Innergex benefits from the experience of a management team that has developed and operated 13 hydroelectric facilities and three wind farms successfully since 1990, with a net installed capacity of 491 MW generated from renewable energy sources.

Investors can also count on the skills of the team in directing feasibility studies and establishing reliable projections. This strength proves particularly advantageous for Innergex in the negotiation of agreements necessary for the successful development of prospective projects.

We also count on well-established relationships with First Nations and local communities. On this point, Innergex's approach favours social and economical acceptability of its projects.

Net installed capacity more than doubled in 2008

Operating revenues are growing.

With the commercial start-up of the Umbata Falls hydroelectric station (23 MW), the Carleton wind farm (109.5 MW) and the operations already underway at the Glen Miller facility (8 MW), Innergex holds three facilities in operation totalling a net installed capacity of 61 MW (140.5 MW gross). Combined with a 16.1% equity interest in the Innergex Power Income Fund (the "Fund"), representing a net interest of 34 MW, the Corporation has a total net installed capacity of 95 MW.

Innergex's operating facilities are recently constructed and are, on average, only a year and a half old. They benefit from long-term power purchase agreements that have a remaining average life of 19.5 years. Electricity sale prices with indexation measures are determined in advance, which makes it possible for Innergex to adequately estimate its future revenues.

Growth expected to continue

A potential of more than 1900 MW net installed capacity.

Two sites are presently under construction at Ashlu Creek and at Fitzsimmons Creek. To be completed respectively in 2009 and 2010, they will offer an additional net installed capacity of 55 MW. In addition, five additional facilities will add 142.5 MW of net installed capacity. In total, these seven projects will result in additional net interests of 197.5 MW coming into 2012.

Before the end of the summer of 2009, Innergex could also obtain power purchase agreements for the development of five other hydroelectric projects, representing 195 MW of net installed capacity.

In the longer term, Innergex can count on the possibility of developing new prospective facilities with an added net installed capacity of more than 1600 MW.

A sustainable commitment

Innergex benefits from the federal ecoENERGY program.


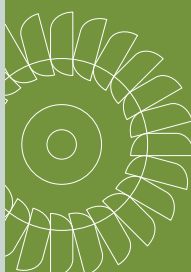









































Innergex ratified agreements and benefits from the Canadian federal government's ecoENERGY initiative for the Umbata Falls hydroelectric facility, the Carleton wind farm and the Ashlu Creek hydroelectric facility under construction. The ecoENERGY program provides a \$10 per MWh incentive payment for the first ten years of operation of the projects.




Accounting for its share of the projects, the ecoENERGY initiative will provide Innergex with a total incentive payment of about \$3.5 million per year for a period of 10 years.

In addition to having a positive impact on Innergex revenues and on the value of its projects, recognition by the ecoENERGY initiative testifies to the importance of Innergex's commitment in taking part in an economy that strives to limit the impact of energy consumption on the environment. As a leader in the renewable energy industry, Innergex adopts respectful environmental management practices and embraces sustainable development as an underlying value.

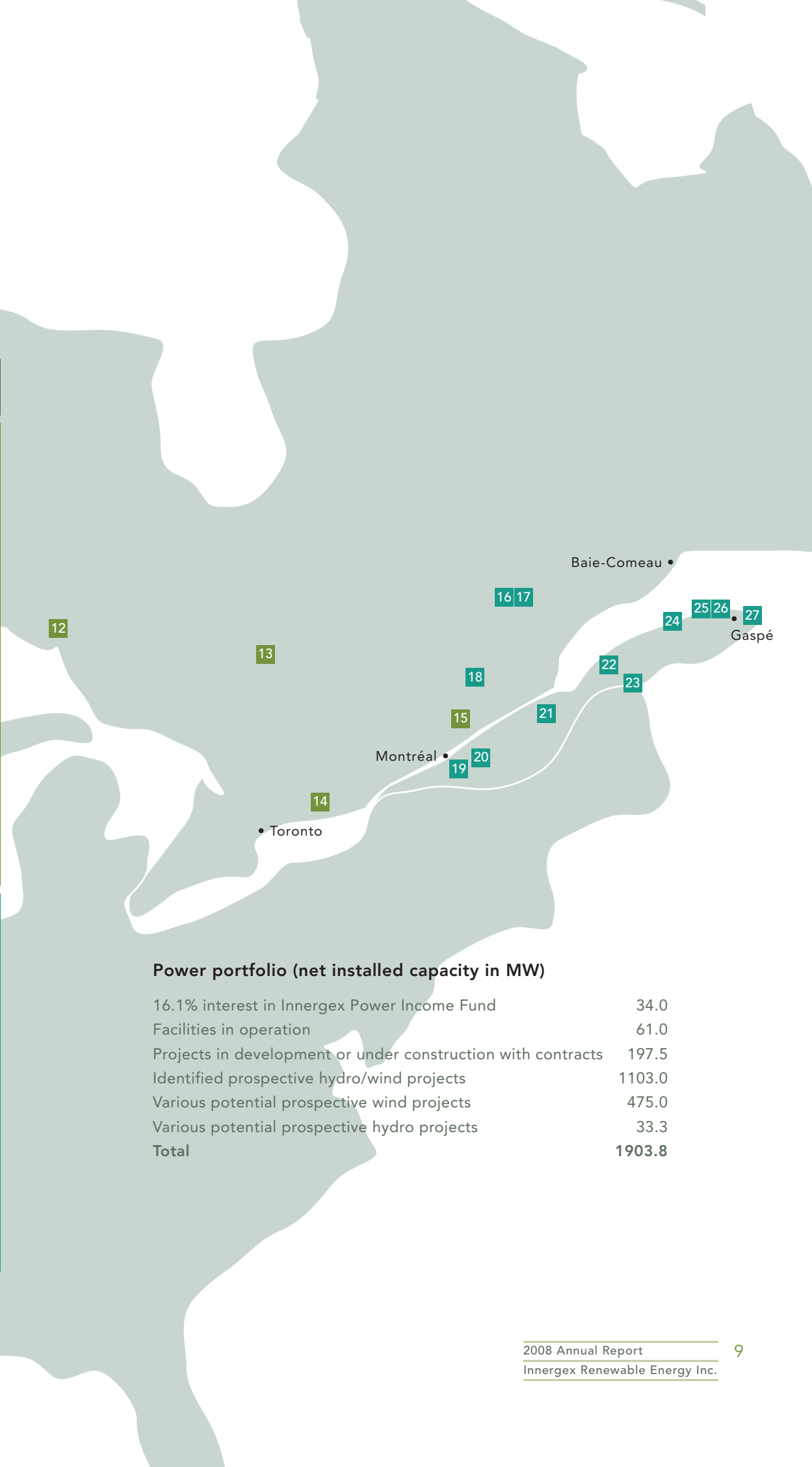
A diversified power portfolio

Innergex Renewable Energy manages a portfolio with a potential net installed capacity of more than 1900 MW.

	Facility or project	Status	Gross installed capacity (MW)	Interest
  Run-of-river hydroelectric facilities	1 Kokish		9.9	100.00%
	2 Kaipit		9.9	100.00%
	3 Upper Lillooet		74.0	66.67%
	4 Boulder Creek		23.0	66.67%
	5 North Creek		16.0	66.67%
	6 Ashlu	 	49.9	100.00%
	7 Hurley River		46.0	66.67%
	8 Fitzsimmons	 	7.5	66.67%
	9 Gun Creek		36.0	66.67%
	10 Mkw'Alts		47.7	100.00%
	11 Kwoeik Creek	 	49.9	50.00%
	12 Umbata Falls	  	23.0	49.00%
	13 Kipawa		42.0	48.00%
	14 Glen Miller	  	8.0	100.00%
	15 Matawin	 	15.0	100.00%
 Wind farms	16 Haute-Côte-Nord Ouest		168.0	100.00%
	17 Haute-Côte-Nord Est		170.0	100.00%
	18 Club des Hauteurs		195.5	100.00%
	19 Roussillon		108.0	100.00%
	20 Saint-Constant		70.0	100.00%
	21 Kamouraska		124.5	100.00%
	22 Les Méchins		150.0	38.00%
	23 Carleton	  	105.5	38.00%
	24 Montagne-Sèche	 	58.5	38.00%
	25 Gros Morne 1	 	100.5	38.00%
	26 Gros Morne 2	 	111.0	38.00%
	27 Rivière-au-Renard		25.0	50.00%

 Prospective projects
 In development
 Under construction
   In operation

SOP, PPA or RFP
BC Hydro SOP
BC Hydro SOP
2008 BC Hydro CPC
2008 BC Hydro CPC
2008 BC Hydro CPC
BC Hydro PPA
2008 BC Hydro CPC
BC Hydro SOP
2008 BC Hydro CPC
BC Hydro PPA
BC Hydro PPA
Ontario Power Authority PPA
Future Hydro-Québec RFP
Ontario Power Authority PPA
Hydro-Québec PPA
Future Hydro-Québec RFP
Future Hydro-Québec RFP
Future Hydro-Québec RFP
Future Hydro-Québec RFP
Future Hydro-Québec RFP
Hydro-Québec PPA
Hydro-Québec PPA
Hydro-Québec PPA
Hydro-Québec PPA
Hydro-Québec PPA
Future Hydro-Québec RFP



Power portfolio (net installed capacity in MW)

16.1% interest in Innergex Power Income Fund	34.0
Facilities in operation	61.0
Projects in development or under construction with contracts	197.5
Identified prospective hydro/wind projects	1103.0
Various potential prospective wind projects	475.0
Various potential prospective hydro projects	33.3
Total	1903.8

SOP: Standing Offer Program
 PPA: Power Purchase Agreement
 RFP: Request for Proposals
 BC Hydro CPC: BC Hydro Clean Power Call

Board of Directors

Gilles Lefrançois, CA

Québec, Canada
Executive Chairman of
the Board of Directors

Michel Letellier, MBA

Québec, Canada
President and Chief Executive Officer
and Director

William A. Lambert, MBA

Ontario, Canada
Director ^{1, 3}

Cyrille Vittecoq, CFA

Québec, Canada
Director ^{1, 4}

Raymond Laurin, CA

Québec, Canada
Director ^{1, 2}

Pierre Brodeur

Québec, Canada
Director ^{1, 2, 5, 6}

Susan M. Smith, MBA

Ontario, Canada
Director ^{1, 3}

1. "Independent" within the meaning of Multilateral Instrument 52-110 of the Canadian Securities Administrators
2. Member of the Audit Committee
3. Member of the Compensation, Corporate Governance and Nominating Committee
4. Chairman of the Audit Committee
5. Chairman of the Compensation, Corporate Governance and Nominating Committee
6. Lead Director

Management

Gilles Lefrançois, CA

Québec, Canada
Executive Chairman of the
Board of Directors

Michel Letellier, MBA

Québec, Canada
President and Chief Executive Officer
and Director

Jean Perron, CA, CMA

Québec, Canada
Vice President and Chief Financial Officer

Michèle Beauchamp, LL.B., LL.M

Québec, Canada
Vice President – Legal Affairs
and Corporate Secretary

Richard Blanchet, P.Eng., M.Sc.

British Columbia, Canada
Vice President Western Region
– Hydroelectric Energy

Normand Bouchard, Eng.

Québec, Canada
Vice President – Wind Energy

Renaud de Batz, Geologist, M.Sc., MBA

Québec, Canada
Vice President Eastern Region
– Hydroelectric Energy

Guy Dufort

Québec, Canada
Vice President – Public Affairs

Peter Grover, Eng.

Québec, Canada
Vice President – Project Management

François Hébert

Québec, Canada
Vice President – Operation
and Maintenance

Jean Trudel, MBA

Québec, Canada
Vice President – Finance
and Investor Relations

Cover:

- A GE 1.5 sle wind turbine at the Baie-des-Sables wind farm, in Québec, in which Innergex holds an indirect interest. This type of wind turbine is also used at the Innergex wind farm in Carleton-sur-Mer, Québec.
- Detail of a Francis hydraulic turbine from Andritz Hydro, designer and manufacturer. Three Francis turbines are being installed at the Innergex hydroelectric facility in Ashlu Creek, near Squamish in British Columbia.

Financial review

Innergex Renewable Energy Inc.

For the year ended December 31, 2008

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") has been prepared as of March 25, 2009.

The purpose of this MD&A is to provide the reader with an overview of the financial position, operating results, and cash flows of Innergex Renewable Energy Inc. ("Innergex" or the "Corporation") for the twelve-month period ended December 31, 2008. This MD&A should be read in conjunction with the audited consolidated financial statements and the accompanying notes for the financial year ended December 31, 2008. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Corporation reports its results in Canadian dollars. Certain amounts included in this MD&A are rounded, to make reading easier. These rounded numbers may affect certain calculations.

DISCLOSURE CONTROLS AND PROCEDURES

The President and Chief Executive Officer and the Vice President and Chief Financial Officer of the Corporation have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that (i) material information relating to the Corporation, including its consolidated subsidiaries, is made known to the President and Chief Executive Officer and the Vice President and Chief Financial Officer of the Corporation by others within those entities, particularly during the period in which the annual filings are being prepared and (ii) the information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the periods specified in securities legislation.

In accordance with *Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings*, the President and Chief Executive Officer and the Vice President and Chief Financial Officer of the Corporation have evaluated the effectiveness of the Corporation's disclosure controls and procedures as at December 31, 2008 and they have concluded that the Corporation's disclosure controls and procedures were effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The President and Chief Executive Officer and the Vice President and Chief Financial Officer of the Corporation designed internal control over financial reporting, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Corporation's GAAP.

In accordance with *Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings*, the President and Chief Executive Officer and the Vice President and Chief Financial Officer of the Corporation have evaluated the effectiveness of the Corporation's internal control over financial reporting and they have concluded that as at December 31, 2008, the Corporation's internal control over financial reporting was effective.

There was no change in the Corporation's internal control over financial reporting during the most recent period that have materially affected, or are reasonably likely to materially affect the Corporation's internal control over financial reporting.

FORWARD-LOOKING STATEMENTS

In order to inform shareholders of the Corporation as well as potential investors on future prospects of the Corporation, sections of this MD&A may contain forward-looking statements within the meaning of securities legislation ("Forward-looking Statements"). Forward-looking Statements can generally be identified by the use of words and phrases, such as "may", "will", "estimate", "anticipate", "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "forecasts", "intends" or "believes", or variations of such words and phrases that state that certain events will occur. Forward-looking Statements represent, as of the date of this MD&A, the estimates, forecasts, projections, expectations or opinions of the Corporation relating to future events or results. Forward-looking Statements involve known and unknown risks, uncertainties and other important factors which may cause the actual results or performance to be materially different from those expressed, or implied, or presented by the Forward-looking Statements. The material risks and uncertainties that may cause the actual results and developments to be materially different from the current expressed expectations are discussed in this MD&A under the heading *Risk and Uncertainties* and include: execution of strategy, capital resources, derivative financial instruments, current economic and financial crisis, hydrology and wind regime, investment in the Fund (as hereinafter defined), construction and design, development of new facilities, project performance, equipment failure, interest rate and refinancing risk, financial leverage and restrictive covenants, separation agreement and relationship with Hydro-Québec. Although the Corporation believes that the expectations instigated by the Forward-looking Statements are based on reasonable and valid hypotheses, there is a risk that the Forward-looking Statements may be incorrect. The reader of this

MD&A is cautioned not to rely unduly on these Forward-looking Statements. The Forward-looking Statements, expressed verbally or in writing, by the Corporation or by a person acting on its behalf, are expressly qualified by this cautionary statement. The Corporation does not undertake any obligation to update or revise any Forward-looking Statements, whether as a result of events or circumstances occurring after the date hereof, unless required by legislation.

OVERVIEW

General

The Corporation was incorporated under the name of Innergex Management Inc. under the laws of Canada on October 25, 2002. On October 25, 2007, the Corporation changed its name to Innergex Renewable Energy Inc. and its initial public offering ("IPO") was completed on December 6, 2007. Its shares are listed on the Toronto Stock Exchange ("TSX") under the symbol "INE".

The Corporation is a developer, owner and operator of run-of-river hydroelectric facilities and wind energy projects in North America as more fully described below. The Corporation also manages power generation facilities on behalf of Innergex Power Income Fund (the "Fund"), a trust listed on the TSX under the symbol "IEF.UN", under long term agreements. The Fund indirectly owns interest in 10 hydroelectric power plants and two wind farms with a total installed capacity of 340 megawatts ("MW") representing a net interest of 210 MW. Before its IPO, the Corporation was also administrating and managing Innergex II Income Fund ("Innergex II"), a private trust in which the Corporation had a 15% equity interest. The Corporation acquired the remaining 85% interest in Innergex II concurrently with its IPO.

The Corporation is one of the most active in the Canadian renewable power industry with a focus on hydroelectric and wind power projects that benefit from low operating and management costs and simple and proven technologies. The Corporation's management team, which has been active in the renewable power industry since 1990, has developed and brought to commercial operation or refurbished, through various ventures, 13 hydroelectric and three wind power facilities, representing an aggregate installed capacity of 491 MW.

The most recent quarter saw construction completed, and commercial operations begun, on two projects: the Umbata Falls hydroelectric facility and the Carleton wind farm. Following these two significant milestones, the Corporation now owns interests in:

- three operating facilities with an aggregate net installed capacity of 60.9 MW (gross 140.5 MW). These interests are composed of two hydroelectric facilities and one wind farm, with aggregate net installed capacities of 19.3 MW (gross 31.0 MW) and 41.6 MW (gross 109.5 MW) respectively. These facilities, commissioned between 2005 and 2008, have a weighted average age of only half a year. They sell the generated power under long-term Power Purchase Agreements ("PPA") that have a weighted average remaining life of 19.5 years as at December 31, 2008;
- seven development projects with an aggregate net installed capacity of 197.5 MW (gross 392.3 MW) in power generating capacity for which PPAs with public utilities have been secured or that are eligible under the terms of the Standing Offer Program ("SOP") for small renewable power generation facilities with a nameplate capacity of less than 10 MW implemented by the British Columbia Hydro and Power Authority ("BC Hydro"). Construction is underway on two of these projects, and construction is expected to begin on the remaining five over the coming years. The projects are expected to reach the commercial operation stage between 2009 and 2012;
- a net capacity of more than 1,600 MW (gross 1,800 MW) in Prospective Projects that are at different stages of development; and
- a direct 16.1 % interest in the Fund.

The Corporation's cash flow sources are diversified. Firstly, as owner of interests in two operating hydroelectric facilities and one operating wind farm, the Corporation receives revenues from the electricity generated by these facilities. Secondly, as the owner of a 16.1 % interest in the Fund, the Corporation receives stable monthly cash distributions. Thirdly, as manager of the Fund, the Corporation receives annual management, administration and incentive fees. Finally, as a developer of renewable energy facilities, the Corporation expects its revenues from electricity generation to increase again in the fourth quarter of 2009 and in years to come as some projects under development reach the commercial operation stage.

Initial Public Offering

Shares of Innergex Renewable Energy Inc. began trading on the TSX under the symbol “INE” on December 6, 2007. A prospectus filed on November 28, 2007 qualified the distribution by the Corporation of 10,455,000 common shares for total gross proceeds of \$115.0 million. Together with the issuance of 5,760,379 additional common shares to the former unitholders (the “Institutional Investors”) of Innergex II, the proceeds from the initial public offering were essentially used to acquire Innergex II and all of its assets and projects under development, and to repay outstanding indebtedness owed by Innergex II to the Institutional Investors. Concurrently with the closing of the offering, the Institutional Investors in Innergex II used part of the proceeds from the repayment of indebtedness and invested into the Corporation by subscribing for 5,342,620 additional common shares. All such 11,102,999 common shares issued to the Institutional Investors were issued on a private placement basis. The exercise of part of the over-allotment option granted to the underwriters resulted in the Institutional Investors selling 470,520 common shares to the public. Common shares sold pursuant to the exercise of the over-allotment option were also qualified by the prospectus.

After giving effect to the offering, the concurrent re-investment and the over-allotment option exercise, a total of 23,500,000 common shares are outstanding. No additional common shares were issued in 2008.

Immediately before the closing of the offering, Innergex II sold its interests in two wind farms to the Fund. The Fund satisfied the purchase price payable to Innergex II by the issuance of 4,724,409 trust units of the Fund to Innergex II and by assuming debts related to the wind farms. As a result of this transaction, the Corporation, which acquired Innergex II, holds 16.1 % of the outstanding units of the Fund which itself owns interests in 10 hydroelectric facilities and two wind farms having an aggregate net installed capacity of 210 MW (gross 340 MW).

The Corporation's financial statements for the year 2008 are compared to those for the year ended December 31, 2007 which include the transactions mentioned above. As such, the results of Innergex II are consolidated for the last 26 days of 2007. It is important to note that prior to the IPO, the Corporation was acting solely as the manager of the Fund and of Innergex II and owned a 15% equity interest in Innergex II. The Corporation did not own any power generating facilities, projects under development or units of the Fund before December 6, 2007.

Key Performance Indicators

The Corporation measures its performance through key indicators that include or could include power generated in megawatt-hours (MW-hr), net operating cash flows and EBITDA, defined as earnings before interest, provision for income taxes, depreciation and amortization and other items. These indicators are not recognized measures under GAAP, and therefore may not be comparable to those presented by other issuers. The Corporation believes that these indicators are important since they provide management and the reader with additional information about its production and cash generation capabilities, and that they facilitate the comparison of results over different periods.

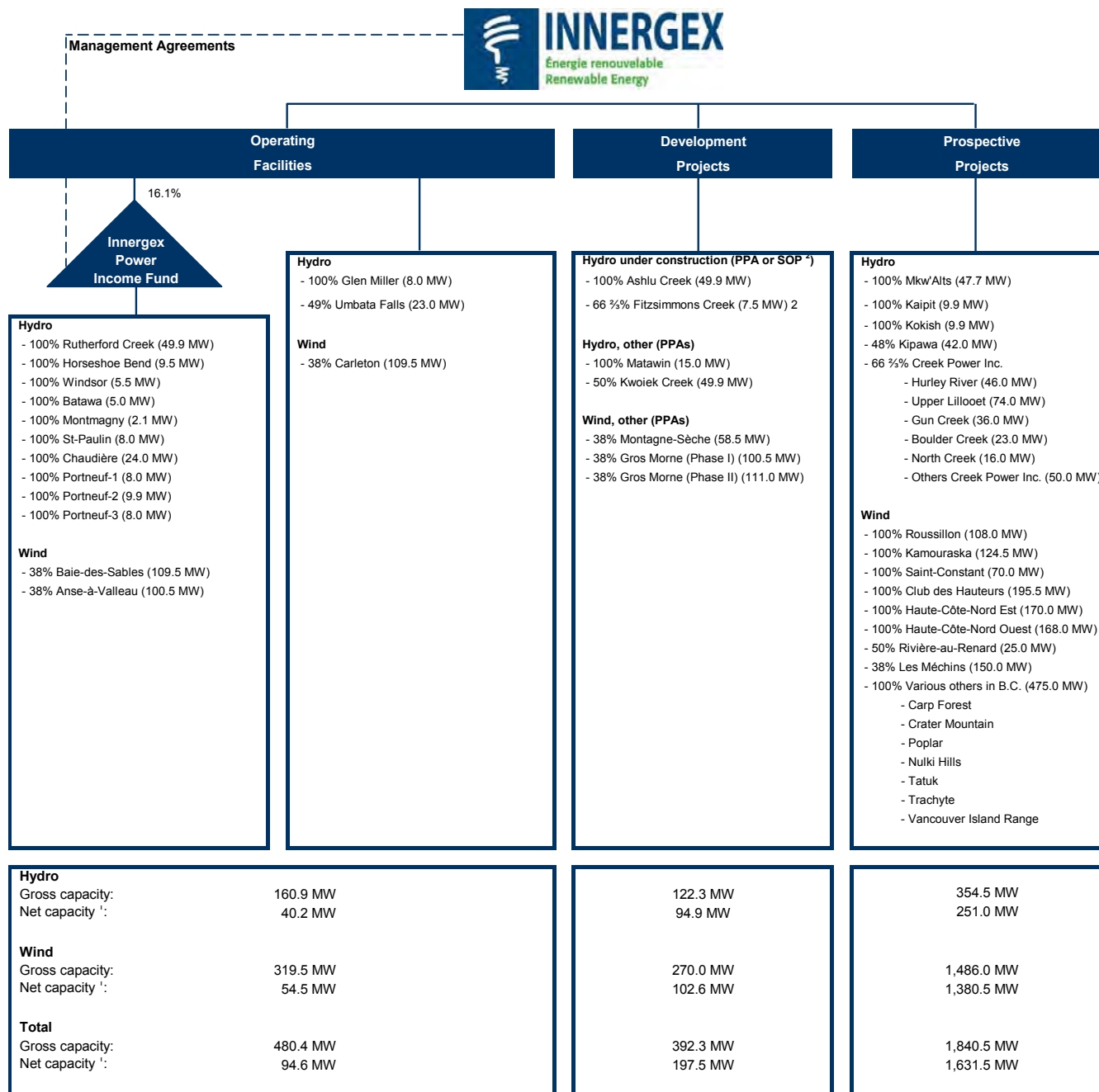
Seasonality

The amount of energy generated by the operating facilities is generally dependent on the availability of water flows and the wind regime. Lower-than-expected water flows or wind regimes in any given year could have an impact on the Corporation's revenues and hence, on its profitability. It should be noted that the Corporation owns interests in two hydroelectric facilities drawing on two watersheds and one wind farm, offering significant diversification in terms of operating revenue sources. Furthermore, given the complementary nature of the production from hydroelectric facilities and from the wind farm, seasonal variations are partially offset.

Portfolio of Assets

The Corporation's portfolio is comprised of interests in three groups of power generating projects: (i) facilities that have reached commercial operations (the “Operating Facilities”); (ii) projects for which PPAs have been secured or which are eligible under BC Hydro's SOP and are either under construction or scheduled to begin commercial operations on planned dates (the “Development Projects”); and (iii) projects that have secured certain land rights, for which an investigative permit application has been filed or with respect to which a proposal has been submitted under a Request for Proposal (“RFP”) (the “Prospective Projects”). The Corporation's portfolio of projects is comprised of interests in 15 Operating Facilities, seven Development Projects and a number of Prospective Projects.

The following chart sets out the Corporation's direct and indirect interests in the Operating Facilities, the Development Projects, and the Prospective Projects.



¹ Net capacity represents the proportional share of the total capacity attributable to the Corporation, based on its ownership interest in these facilities and projects.

The remaining capacity is attributable to the strategic partners' ownership share.

² Project eligible under BC Hydro's Standing Offer Program

Operating Facilities

The Corporation's ownership share in the 15 Operating Facilities consist of a 100% interest in the Glen Miller hydroelectric facility, a 49% interest in the Umbata Falls hydroelectric facility, a 38% interest in the Carleton wind farm and interests in the 12 other Operating Facilities held through its 16.1% direct interest in the Fund.

1. Glen Miller Facility

The Glen Miller facility is an 8.0 MW run-of-river hydroelectric facility located on the Trent River in Trenton, Ontario, with an estimated yearly energy output of 41,606 MW-hr. Construction of this facility began in January 2004 and was completed in December 2005. The Glen Miller facility has a PPA with the Ontario Power Authority ("OPA") for all of the power it produces until December 19, 2025. On January 1 of each year, a portion equal to 15% of the price of electricity purchased under the Glen Miller PPA is indexed to the percentage of increase or decrease of the consumer price index ("CPI"). The average price of electricity delivered to the OPA in 2008 was \$67.47 per MW-hr compared to \$66.67 per MW-hr in 2007. The Corporation owns 100 % of this project.

2. Umbata Falls Facility

The Umbata Falls facility is a 23.0 MW run-of-river hydroelectric facility located on the White River, a tributary of Lake Superior, approximately 30 kilometres southeast of Marathon, Ontario. Its estimated yearly energy output is 109,102 MW-hr. Construction of the Umbata Falls project began in June 2006 and was completed on November 12, 2008. The Umbata Falls project has a PPA with the OPA for all power produced until November 12, 2028. On January 1 of each year during the term of the PPA, a portion equal to 15% of the price of electricity purchased under the PPA is indexed to the percentage of increase or decrease of the CPI. The average price of electricity delivered to the OPA from November 12, 2008 to December 31, 2008 was \$83.51 per MW-hr, including payments received from the Federal government's ecoENERGY Initiative intended to support renewable energy in Canada (the "ecoENERGY Initiative"). The ecoENERGY Initiative provides a \$10 per MW-hr incentive payment for the facility's first ten years of operation. The Corporation owns a 49% interest in this project.

3. Carleton Wind Farm

The Carleton wind farm is a 109.5 MW facility located in the Town of Carleton-sur-Mer and the Regional County Municipality of Bonaventure, Québec. Its estimated yearly energy output is 340,523 MW-hr. Construction of the Carleton project began in October 2007 and was completed on November 22, 2008. The Carleton wind farm has a PPA with Hydro-Québec for all electricity produced by the project until November 22, 2028. On January 1 of each year during the term of the PPA, a portion equal to approximately 18% of the price of electricity purchased under the PPA is indexed to the percentage of increase or decrease of the CPI. The average price of electricity delivered to Hydro-Québec from November 22, 2008 to December 31, 2008 was \$80.37 per MW-hr, including net payments received from the ecoENERGY Initiative. As stipulated in the PPA, Hydro-Québec Distribution is entitled to 75% of the payments received by the Carleton wind farm under the ecoENERGY Initiative. The Corporation owns a 38% interest in this project.

4. 16.1% Interest in the Innergex Power Income Fund

The Innergex Power Income Fund is an open-ended income trust that indirectly owns interests in 10 hydroelectric power generating facilities and two wind farms with a total net installed capacity of 210 MW (gross 340 MW). The Fund's units are traded on the TSX under the symbol "IEF.UN". The hydroelectric facilities and the wind farms are managed by the Corporation, as manager, under long-term agreements with the Fund.

All the power generating facilities related to the Fund sell their power under long-term PPAs signed with public utilities that have credit ratings issued by Standard & Poors that range from BBB to AAA. The weighted average age of the facilities is approximately six years and the capacity weighted average remaining life of the PPAs is 15.4 years, excluding renewal features. The Corporation owns 4,724,409 units or approximately 16.1% of all issued and outstanding units of the Fund. The Fund's current distribution policy is to remit \$1.00 per trust unit per year, on a monthly basis, to its unitholders.

Additional information about the Fund's facilities can be found on SEDAR at www.sedar.com. Such information is not incorporated by reference.

Development Projects

The Corporation currently has two projects under construction which are expected to begin commercial operations in 2009 and 2010 and five other projects that are expected to reach the commercial operation stage in 2011 and 2012.

1. Ashlu Creek Project

The Ashlu Creek project is a run-of-river hydroelectric power generating facility currently under construction with an expected nameplate capacity of 49.9 MW and an estimated yearly energy output of 265,000 MW-hr. It is located on Ashlu Creek, a tributary of the Squamish River, approximately 35 kilometres northwest of Squamish, British Columbia. Construction at the Ashlu Creek project began in August 2006 and commercial operations are expected to commence before the end of 2009. The Ashlu Creek project has a PPA with BC Hydro, for all of the power that will be produced by the project, expiring 30 years following the commencement of commercial operations. The price of electricity is \$56.36 per MW-hr and is to be adjusted by a portion equal to 50% of the increase or decrease in the CPI over the preceding 12 months starting on January 1, 2005 and on every January 1 thereafter during the term of the PPA. On March 4, 2009, an agreement was signed with the Federal government confirming that the Ashlu Creek project will receive incentive payments under the ecoENERGY Initiative once commercial operations begin and subject to certain conditions. The ecoENERGY Initiative provides a \$10 per MW-hr incentive payment for the facility's first ten years of operation. The Corporation owns 100% of this project.

2. Fitzsimmons Creek Project

The Fitzsimmons Creek project is a run-of-river hydroelectric power generating facility currently under construction with an expected nameplate capacity of 7.5 MW and an estimated yearly energy output of 33,000 MW-hr. It is located on Fitzsimmons Creek, between the Whistler and Blackcomb mountains in the Resort Municipality of Whistler, British Columbia. Construction of the Fitzsimmons Creek project began in July 2008 prior to the Corporation's acquisition of a 66 ⅔% interest on August 29, 2008. The project is expected to be in commercial operation before the end of 2010. Since it is eligible under the BC Hydro SOP, the Corporation expects to enter into a PPA with BC Hydro – for an anticipated 40-year term effective on the commercial in-service date – for all the power that will be produced by this project. The Corporation also expects that the Fitzsimmons Creek project will be eligible for the ecoENERGY Initiative.

3. Matawin Project

The Matawin project is a hydroelectric power generating facility with an expected installed capacity of 15.0 MW and an estimated yearly energy output of 62,529 MW-hr. It is located on the Matawin River, a tributary of the Saint-Maurice River, in Québec. Construction of the Matawin project is expected to begin in the second quarter of 2009, and commercial operations in 2011. The Corporation was selected pursuant to a RFP issued jointly by Hydro-Québec and the *Ministère des Ressources naturelles et de la Faune du Québec* ("MRNF") in 2002. The Corporation is currently finalizing the 25-year PPA with Hydro-Québec. The price for electricity generated by the project is expected to be \$39.40 per MW-hr. The power produced will be indexed by 0.6% annually, following the start date of commercial operations. The Corporation anticipates that the Matawin project will be eligible for the ecoENERGY Initiative. The Corporation owns 100% of this project.

4. Kwoiek Creek Project

The Kwoiek Creek project is a run-of-river hydroelectric power generating facility with an expected nameplate capacity of 49.9 MW and an estimated yearly energy output of 215,000 MW-hr. It is located at the confluence of the Kwoiek Creek with the Fraser River, approximately 14 kilometres south of Lytton, British Columbia. Construction of the Kwoiek Creek project is expected to begin in the second quarter of 2009, and commercial operations in 2011. The Kwoiek Creek project has a PPA with BC Hydro, which will expire 40 years after the facility's commercial in-service date, for all of the power that it will produce. The price of electricity delivered pursuant to the PPA is \$81.68 per MW-hr. A portion equal to 30% of the electricity price is to be adjusted according to the increase or decrease in the CPI during the preceding 12 months, starting on January 1, 2006 and on every January 1 thereafter during the term of the PPA. The Corporation owns 50% of the Kwoiek Creek project.

5. Montagne-Sèche Project

The Montagne-Sèche project is a wind power facility located in the Municipality of the Canton of Cloridorme, Québec. It has a planned installed capacity of 58.5 MW and an expected yearly energy output of 182,743 MW-hr. The Montagne-Sèche project is expected to commence commercial operations in 2011. The project has a PPA with Hydro-Québec, which expires 20 years after the commencement of commercial operations, for all of the electricity that it will produce. The price for electricity delivered, payable by Hydro-Québec, is determined pursuant to a formula set out in the PPA. This formula is based on the price as at January 1, 2004, being an amount of \$68.80 per MW-hr, and is adjusted annually in accordance with the CPI and certain factors specified therein. The Corporation owns a 38% interest in this project.

6. Gros Morne Project – Phase I

The Gros Morne Phase I project is a wind power facility located in the Municipality of Mont-Louis and the Municipality of Sainte-Madeleine-de-la-Rivière-Madeleine, Québec. The Gros Morne Phase I project has a planned installed capacity of 100.5 MW and an expected yearly energy output of 312,535 MW-hr. It is expected that this project will commence commercial operations in 2011. The Gros Morne Phase I and Phase II projects are covered under a single PPA entered into with Hydro-Québec – expiring 21 years after the start of commercial operations of the Gros Morne Phase I project – for all electricity that will be produced by the projects. The price for electricity delivered, payable by Hydro-Québec pursuant to the Gros Morne Phases I and II projects, was set at \$65.58 per MW-hr as at January 1, 2004, and is adjusted annually in accordance with the CPI and certain factors specified therein. The Corporation owns a 38% interest in this project.

7. Gros Morne Project – Phase II

The Gros Morne Phase II project is a wind power facility located in the Municipality of Mont-Louis and the Municipality of Sainte-Madeleine-de-la-Rivière-Madeleine, Québec. The Gros Morne Phase II project has a planned installed capacity of 111.0 MW and an expected yearly energy output of 345,188 MW-hr. It is expected that the Gros Morne Phase II project will begin commercial operations in 2012. The Gros Morne Phase I and Phase II projects have the same PPA with Hydro-Québec for all electricity that will be produced by the projects. Please refer to the preceding paragraph for more details about the PPA. The Corporation owns a 38% interest in this project.

Prospective Projects

All of the Prospective Projects, totalling a potential net installed capacity exceeding 1,600 MW (gross 1,800 MW) are in the preliminary development stages. Some Prospective Projects are targeted towards specific future RFPs, and others will be available for future RFPs yet to be announced. There is no certainty that any Prospective Project will be realized.

Additional information about the Corporation's facilities and projects can be found in the Corporation's Annual Information Form for the year ended December 31, 2008 filed at www.sedar.com.

Business Strategy

The Corporation's strategy for building shareholder value is to develop or acquire high-quality power production facilities that generate sustainable and stable cash flows, with the objective of achieving a high return on invested capital. As an independent clean power producer, the Corporation aims to generate value from renewable energy sources.

Strategic Relationships

The Corporation often teams up with a strategic partner when bidding for projects under an RFP. When this is the case, the Corporation and the strategic partner share the ownership of such projects. Current partners are TransCanada Energy Ltd. (owner of 62% of the Cartier Wind projects), the Kanaka Bar Indian Band (owner of 50% of the Kwoiek Creek project), the Ojibways of the Pic River First Nations (owner of 51% of the Umbata Falls project) and Ledcor Power Group Ltd. (owner of 33 ⅓% of the Fitzsimmons Creek project and other Creek Power Inc. projects). The Corporation's capacity measured on an ownership-weighted basis represents (i) 94.7 MW out of the 480.4 MW capacity of its Operating Facilities, including its 16.1% interest in the Fund, (ii) 197.5 MW out of the 392.3 MW capacity of its Development Projects and (iii) 1,632 MW out of the 1,841 MW capacity of its Prospective Projects.

Areas of Growth

The Corporation is confident that future RFP opportunities will continue to arise, especially in Québec, British Columbia and Ontario, as these provinces continue to increase their targets for renewable power generation. The Corporation has historically focused its bidding activities on RFPs issued in these three provinces, where it has experienced a high level of success.

On November 25, 2008, the Corporation submitted five hydroelectric Prospective Projects, for a total of 195.0 MW, in response to the BC Hydro 5,000 GW-hr Clean Power Call RFP. Contract award announcements are expected before the end of June 2009. Also in British Columbia, the Corporation could submit the 9.9 MW Kaipit project and the 9.9 MW Kokish project under the BC Hydro SOP for clean power projects with a nameplate capacity of less than 10 MW or under a future RFP.

The Corporation is currently engaged in discussions with local communities and First Nations to submit wind projects under the Québec 250 MW Community Wind RFP and the 250 MW Aboriginal Wind RFP, which are expected to be issued in 2009, subject to the current price of \$95.00 per MW-hr being adjusted to reflect rising construction costs faced by clean energy developers. The Corporation also intends to participate in the projected Québec 150 MW municipal and aboriginal RFP for small hydroelectric projects. The Corporation also intends to be more active in responding to RFPs in Ontario, where its management has brought three facilities to commercial operation status.

The Corporation's management team views the U.S. as an attractive market and will continue to assess the opportunities it offers, particularly in light of the Obama administration's focus on increasing renewable energy production. Industry statistics¹ reveal that the United States was the second-largest producer of wind power in the world at the start of 2008, hosting 16,971 MW or approximately 18.1% of the world's capacity. This industry is expanding rapidly with new installations boosting the country's wind power generating capacity by 45.1% in 2007¹.

¹ Source: Windpower Monthly

Diversification

The Corporation may also expand through the acquisition of prospective projects currently at varying development stages or of suitable power assets that are already in commercial operation. As a public company, the Corporation could use its equity to finance potential acquisitions. As it has done in the past, the Corporation will continue to focus on hydroelectric and wind power generation facilities, although it may seek to grow through expansion into other forms of renewable energy production, including solar and geothermal power, if profitable opportunities in those sectors arise. Future projects may be located in any region where these profitable opportunities exist, although the Corporation expects that they will mostly be located in Canada and the United States. While the Corporation intends to continue focusing upon the sale of power through long-term PPAs, it may also consider entering into the merchant wholesale power market if profitable opportunities are identified.

Key Growth Factors

The Corporation's future growth will be affected by five key factors: (i) the demand for renewable energy by the population and governments; (ii) its capacity to evaluate and secure the best prospective sites for the development of new projects in cooperation with local communities; (iii) its ability to enter into attractive PPAs and to obtain the required environmental and other permits; (iv) its ability to adequately forecast total construction costs, expected revenues and expected expenses for each project and (v) the availability of financing. In light of the threat posed by global warming and governments' growing recognition of and support for the need to protect the environment, the Corporation believes that the future of the renewable energy industry is promising.

Capacity for Delivering Results

As it evolves within a competitive sector, the Corporation's best asset is its management team's experience and dedication. This team has a proven track record of completing projects by the commercial operations start date provided in its PPAs, without incurring any significant cost overruns, due to its careful management of the construction process. The Corporation employs 49 persons and oversees 14 employees of the operating entities in order to perform its duties under the Administration Agreement, the Management Agreement with the Trust and the Services Agreement. The 14 employees of the operating entities are responsible for the operation and maintenance of the operating facilities of the Fund. The Corporation's employees possess the specialized knowledge and skills needed to carry out its business. The Corporation can also rely on a network of technical, financial and legal partners, and has a proven ability to complement its internal capacity with an efficient use of external consultants, when required. In addition, the Corporation uses the services of several independent engineering firms to assist it with the feasibility analysis of its projects.

Market Trends

Renewable power producers are involved in the generation of electricity from renewable energy sources including (i) water; (ii) wind; (iii) certain waste products, such as biomass (e.g., waste wood from forest products operations) and landfill gas; (iv) geothermal sources, such as heat or steam; and (v) the sun. While traditional regulated utilities continue to dominate the North American electricity generation markets, the growing importance of the role played by independent power producers in supplying future electricity needs is now acknowledged and the benefits of their power generation output has increasingly been recognized by government authorities and other policymakers in recent years.

The trend towards increased reliance on independent power producers for the supply of renewable power in North America is fuelled by a number of initiatives, including (i) the increase in government-sponsored incentives, (ii) the availability of long-term renewable energy purchase contracts with high creditworthy counterparties, allowing independent power producers to develop new projects in a low-risk environment with the expectation of long-term stable contractual cash flows, (iii) the implementation of non-discriminatory access to transmission systems, providing independent power producers with access to regional electricity markets, and (iv) the efficiency of independent power producers.

Renewable Power in Canada

Significant recent growth in renewable power generation in Canada has been influenced by rising electricity and fossil fuel prices, certain competitive provincial markets, increased costs of large-scale hydroelectric sites, public concern over nuclear power generation, air quality and greenhouse gases, improvements in renewable energy technologies and shorter construction lead times for some renewable energy projects. Renewable electricity generation in Canada is also supported by federal and provincial incentives such as production tax credits, accelerated depreciation and Renewable Portfolio Standards ("RPS"). Several provinces are also making the necessary transmission grid investments and are focusing on conservation and reduction in demand.

Canada enjoys an abundance of hydrological resources that are unique in the world. Despite the competition for appropriate sites and the challenges associated with power transmission over great distances, the low operational costs and long project lives of these facilities suggest that hydroelectric power generation will remain a major affordable supply source for many years. Transmission corridors in Canada have traditionally run directly from major generation facilities to major demand centres, meaning that strategic investments in new transmission corridors will play an important role in the development of hydroelectric projects and other isolated renewable energy generation projects.

The National Energy Board reports that wind power generation in Canada has reached the commercial development stage and is now the fastest growing source of renewable energy in the country. According to the Canadian Wind Energy Association, approximately 2,246 MW of wind power capacity was installed as of December 2008. Installed wind power capacity in Canada has increased substantially in each of the past four years, due largely to provincial RPSs, relatively short construction timelines, favourable wind resources including vast shorelines and strong winds throughout a wide range of rural areas, and numerous RFPs for renewable energy. The customary challenges of resource availability and transmission exist in Canada and, in certain areas, access to transmission lines with available capacity is an economic or regulatory consideration. Nevertheless, the Canadian Wind Energy Association has proposed a target for the construction of 7,000 MW of wind generation capacity by 2013.

In response to the long-term trend toward stronger policies for protecting the environment, many provincial governments have introduced RPSs, which are generally being applied and implemented as goals or targets rather than mandatory requirements. These RPSs typically reflect the distinct resource issues associated with electricity generation, given the provinces' respective electricity industry structures and geographical conditions. RPSs typically set a target for an increased component of renewable energy generation in the electricity generation supply mix, in order to reduce greenhouse gas emissions over time. To meet these targets, RFPs have been developed by provincial authorities or their utilities in order to source renewable generation resources and, in some cases, offer PPAs through competitive bidding processes. The competitive bidding process seeks to ensure that the RPSs are achieved at the lowest possible cost and with the highest probability of project completion. Standard offer programs have also been implemented or are planned in some provinces, as a mechanism whereby smaller projects can contribute to meeting renewable energy generation goals by simplifying the negotiation and financing process, and decreasing the transactional costs for obtaining a relatively small but long-term and certain PPA.

Several provinces have recently released, or are currently preparing, significant new RFPs or SOPs, with the objective of procuring additional installed electricity generation capacity from renewable sources. Through provincial RPSs, several provinces have targeted a percentage of electricity to be generated from renewable sources. The current provincial targets for clean or renewable energy within their supply mix include: British Columbia requiring renewable or clean energy to continue to account for at least 90% of total generation; Saskatchewan requiring 50% by 2025; Nova Scotia requiring 20% by 2013; Prince Edward Island requiring 30% by 2016; Ontario requiring 10% to be contracted for by 2010; and Québec seeking 4,000 MW of installed wind generation capacity by 2015.

Impact of the Financial Crisis

In view of the current volatile and uncertain times faced by most developed countries, this section is intended to inform investors about five specific major drivers that have changed as a result of the crisis: (i) credit availability and cost, (ii) customer demand, (iii) currencies, (iv) commodities and (v) counterparties.

Credit Availability and Cost

While financial institutions continue to lend, they are doing so much more cautiously and imposing certain terms and conditions that could make credit more onerous or simply unavailable for the pursuit of the Corporation's Development or Prospective Projects. If the Corporation is unable to conclude project financing in a timely manner and on commercially acceptable terms, construction of additional Development Projects and Prospective Projects could be postponed. The Corporation's present operations and construction activities are financed using long-term non-recourse project financings provided by strong relationship banks. As of the date of this MD&A, only the Fitzsimmons Creek project financing needs to be obtained in order for the Corporation to have fulfilled all of its financing needs. The Corporation therefore executed a committed term sheet for the Fitzsimmons Creek project financing with a Canadian financial institution in March 2009. Following the usual syndication process, the Corporation expects to finalize this financing by the end of the second quarter of 2009.

Customer Demand

The Corporation sells its electricity to creditworthy public utilities owned by provincial governments through long-term take-or-pay PPAs. As such, the financial crisis has no impact on the Corporation's customers demand for its electricity. However, the financial crisis could result in an ultimate decrease in overall electricity consumption by the end customers of these public utilities. Nevertheless, the Corporation believes that renewable energy will continue to be the preferred source of new energy supply and that public utilities will continue to issue RFPs to meet their renewable energy objectives.

Currencies

Since the Corporation is presently active only in Canada, it is not materially exposed to currency fluctuations.

Commodities

The Corporation could be exposed to commodity prices variations in relation to its construction costs. However, the Development Projects currently under construction, namely Ashlu Creek and Fitzsimmons Creek, are being built under fixed-price construction contracts and as such, are not impacted by commodity prices variations. Nevertheless, construction costs of future projects could benefit from a lower commodity price environment since the pricing on many project components is influenced by commodity prices, such as those for steel and copper.

Counterparties

The Corporation relies on certain contractors and sub-contractors to achieve construction of its facilities. Such contractors could be impacted by the financial crisis, to the detriment of the Corporation. In order to protect the Corporation from such risk, contractors were requested to post performance, material and labour bonds issued by insurance companies for amounts equivalent to 50% or less of the value of their contracts with the Corporation.

Global Performance

Operating Facilities

Glen Miller

During the year ended December 31, 2008, the Glen Miller hydroelectric facility produced 45,842 MW-hr, a level exceeding the long-term average of 41,606 MW-hr by 10%, due to more favourable hydrological conditions. From the time of its acquisition to the end of 2007 (26 days), the Glen Miller facility generated 2,530 MW-hr.

Umbata Falls

From its first day of commercial operations on November 12, 2008 until the end of 2008 (50 days), the Umbata Falls hydroelectric facility produced 6,006 MW-hr, a level below the long-term average of 8,780 MW-hr due to usual start-up issues and to below-average hydrological conditions.

Carleton

During the 40-day period from the start of commercial operations on November 22, 2008, the Carleton wind farm produced 16,270 MW-hr, a level below the long-term average of 18,829 MW-hr due to usual start-up issues and to below-average wind conditions.

Corporation's 16.1% interest in the Fund

Since December 6, 2007, the Corporation has owned 4,724,409 units or 16.1 % of the Fund which in turn owns interests in 10 operating hydroelectric facilities and two operating wind farms. In 2008, the Fund's 10 hydroelectric facilities and two wind farms produced 862,394 MW-hr of power, 42% more than the 608,509 MW-hr produced during the twelve-month period in 2007 and 3% above the long-term average. This increase is mainly due to the contribution of the Baie-des-Sables ("BDS") and Anse-à-Valleau ("AAV") wind farms over a full year and to more favourable hydrological conditions. In 2008, the BDS and AAV wind farms generated 213,632 MW-hr compared to 18,257 MW-hr over 26 days in 2007 and hydrological conditions generated output that exceeded the long-term average by 7%, compared to 2007 when production was 3% lower than the long-term average.

Development Projects

The Corporation owns seven Development Projects. Of these projects, two are presently under construction and five are in the permitting phase. The table below provides an overview of the advancement of the projects under construction owned by the Corporation.

Development Projects (under construction)						
Project Name	Location	Installed Capacity (MW)	Estimated Long-term Average Production (in MW-hr)	Estimated Total Construction Costs (\$M)	Total Construction Costs as at December 31, 2008 (\$M)	Expected Commercial In-service Date
HYDRO						
Ashlu Creek	British Columbia	49.9	265,000	138.0	100.4	Q4 2009
Fitzsimmons Creek ¹	British Columbia	7.5	33,000	33.2	11.8	Q4 2010

¹ The Corporation owns 66 ⅔% of this project

Ashlu Creek

The financing for the construction of the Ashlu Creek hydroelectric project provides for a certain expected in-service date and equity funding requirements. In 2008, delays in the horizontal mining of the power tunnel resulted in the postponement of the commercial operations start date of the project and in cost overruns of approximately \$6 million. As a result of such delays and cost overruns, the Corporation and the lenders agreed on an amended credit agreement on October 9, 2008, reflecting a rescheduled in-service date (as agreed to by BC Hydro) as well as the additional equity invested by the Corporation for the completion of the project.

Construction Update

As of the date of this MD&A, work has been completed on the access roads, transmission lines, switchyard, creek diversion using cofferdams and emergency spillway. Construction activities at the intake, sluiceway and powerhouse are essentially completed and equipment manufacturing is 95% achieved. Horizontal mining of the power tunnel of 4.4 km is 100% completed and mining of the vertical shaft of 160 meters has begun. The commercial-in-service date is expected at the end of 2009.

Fitzsimmons Creek

During the third quarter of 2008, the Fitzsimmons Creek project achieved a significant step towards the execution of a PPA when BC Hydro determined that the project was eligible under its SOP. Based on a typical SOP timetable provided by BC Hydro, the Corporation expects to enter into a PPA with BC Hydro before the end of the second quarter of 2009.

According to SOP rules, the price of electricity is \$83.86 per MW-hr and is to be indexed by 100% of the CPI on January 1 of each year prior to the start of commercial operations, effective January 1, 2009. Thereafter, beginning on January 1 of the year in which the facility will start commercial operations and on each subsequent January 1, the price of electricity will be indexed by a portion equal to 50% of the CPI during the term of the PPA. BC Hydro will pay an additional \$3.10 per MW-hr which will be adjusted by 100% of the CPI for the term of the PPA, starting January 1, 2009 since in return, BC Hydro will benefit from any environmental attributes generated by the project for the term of the PPA. The Corporation expects that the Fitzsimmons Creek project will be eligible under the ecoENERGY Initiative which provides for an incentive payment of \$10 per MW-hr for the first ten years of operations.

Construction Update

The project is progressing according to plan and on budget. As of the date of this MD&A, approximately 45% of the access roads, 25% of the penstock, 66% of the cofferdams and 85% of the emergency spillway have been completed. Excavation has also begun at the powerhouse site. This project is expected to begin commercial operations in the fourth quarter of 2010.

The table below provides an overview of the other Development Projects which are in the permit phase.

Development Projects (permit phase)				
Project Name	Location	Installed capacity (MW)	Estimated total construction costs (\$ M)	Expected Commercial In-service Date
<i>HYDRO</i>				
Matawin	Québec	15.0	24.6	2011
Kwoiek Creek ¹	British Columbia	49.9	152.1	2011
<i>WIND</i>				
Montagne-Sèche ²	Québec	58.5	103.0	2011
Gros Morne – Phase I ²	Québec	100.5	348.5	2011
Gros Morne – Phase II ²	Québec	111.0	for both phases	2012

¹ The Corporation owns 50% of this project

² The Corporation owns 38% of this project

Construction of the Matawin hydroelectric project is dependent upon the issuance of the MRNF decree. The Corporation expects commercial operations to begin in 2011 assuming the issuance of the decree within normal delays.

Construction of the Kwoiek Creek hydroelectric project is expected to commence immediately following completion of the ongoing permit phase. Project construction is expected to be completed in 2011.

Hearings on the Montagne-Sèche (“MS”) and Gros Morne I and II (“GM”) wind projects were held in September 2008, after which the Bureau d’audiences publiques sur l’environnement (environmental public hearing office) released its report in February 2009. The Corporation is satisfied with the report’s conclusions and is closely evaluating the recommended improvements to the MS and GM wind projects. This critical step in the development of wind projects is well ahead of schedule.

Prospective Projects

With the acquisitions of Innergex II on December 6, 2007 and of a 66 ⅔% interest in Creek Power Inc. on August 29, 2008 (the "Creek Power Inc. Acquisition"), the Corporation acquired hydroelectric and wind Prospective Projects with a net potential installed capacity of more than 1,600 MW (gross 1,800 MW).

Prospective Projects				
Project Name	Location	Ownership Interest	Gross Installed Capacity (MW)	RFP
HYDRO				
Kipawa	Québec	48.0%	42.0	Future Hydro-Québec RFPs
Mkw'Alts	British Columbia	100.0%	47.7	PPA with BC Hydro
Kaipit	British Columbia	100.0%	9.9	BC Hydro SOP or future RFPs
Kokish	British Columbia	100.0%	9.9	BC Hydro SOP or future RFPs
Hurley River	British Columbia	66 ⅔%	46.0	2008 BC Hydro CPC RFP
Upper Lillooet	British Columbia	66 ⅔%	74.0	2008 BC Hydro CPC RFP
Gun Creek	British Columbia	66 ⅔%	36.0	2008 BC Hydro CPC RFP
Boulder Creek	British Columbia	66 ⅔%	23.0	2008 BC Hydro CPC RFP
North Creek	British Columbia	66 ⅔%	16.0	2008 BC Hydro CPC RFP
Various Creek Power Inc. projects	British Columbia	66 ⅔%	Potential of 50 MW on a total aggregate of over 100 MW	BC Hydro SOP or future RFPs
Sub-total HYDRO			354.5	
WIND				
Roussillon	Québec	100.0%	108.0	Future Hydro-Québec RFPs
Kamouraska	Québec	100.0%	124.5	Future Hydro-Québec RFPs
Saint-Constant	Québec	100.0%	70.0	Future Hydro-Québec RFPs
Club des Hauteurs	Québec	100.0%	195.5	Future Hydro-Québec RFPs
Haute-Côte-Nord Est	Québec	100.0%	170.0	Future Hydro-Québec RFPs
Haute-Côte-Nord Ouest	Québec	100.0%	168.0	Future Hydro-Québec RFPs
Rivière-au-Renard	Québec	50.0%	25.0	Future Hydro-Québec RFPs
Les Méchins	Québec	38.0%	150.0	PPA with Hydro-Québec
Various projects	British Columbia	100.0%	Potential of 475 MW on a total aggregate of over 975 MW	Future BC Hydro RFPs
Sub-total WIND			1,486.0	
Total			1,840.5	

In November 2008, five hydroelectric Prospective Projects were submitted under the 2008 BC Hydro Clean Power Call RFP. Results are expected before the end of June 2009. The Corporation could also submit the 9.9 MW Kaipit project and the 9.9 MW Kokish project under the BC Hydro SOP for clean power projects with a nameplate capacity of less than 10 MW or under a future RFP.

In view of uncertainty surrounding the outcome of ongoing negotiations with respect to the Les Méchins wind project ("LM") and the Mkw'Alts hydroelectric project ("Mkw'Alts") (see following paragraphs), both have been classified as Prospective Projects by the Corporation although each holds a PPA.

More specifically, in 2008, LM project's turbine supply agreement was terminated by the turbine supplier and some rights of superficies affecting private lands have not been secured, as required per the term of the PPA. The Corporation is presently negotiating with other turbine suppliers to secure the appropriate type and number of turbines needed, and with the remaining landowners to reach an agreement. If the Corporation is able to resolve these issues, it will seek to postpone the deadline for the commencement of commercial operations as per the term of the PPA with Hydro-Québec. The Corporation believes that Hydro-Québec will agree to such an amendment, since the price at which electricity is sold pursuant to the LM project PPA is favourable to Hydro-Québec, in light of the rising costs to secure new power sources.

On November 1, 2008, the licence of occupation of the Mkw'Alts project was not renewed by the Province of British Columbia, since the Corporation has not yet been able to reach an agreement with the Lil'wat Nation for two reasons (i) the cultural

significance of the land to the Lil'wat Nation and (ii) signature of a land use planning agreement among the Lil'wat Nation and the Province of British Columbia in April 2008 without consulting the Corporation, despite the licence of occupation issued to the latter while attempts from the Corporation to negotiate with the Lil'wat Nation were ongoing. The Province of British Columbia confirmed that a new licence of occupation would not be issued unless an agreement is reached with the Lil'wat Nation. The Corporation has also received a notice of cancellation of the conditional water licence. If the Corporation is able to resolve the issues associated with the Lil'wat Nation, the conditional water licence and the licence of occupation, the Corporation will seek to postpone the deadline for the commencement of commercial operations under the PPA with BC Hydro. The Corporation believes that BC Hydro will agree to such postponement as the price at which electricity is sold pursuant to the Mkw'Alts project PPA is favourable to BC Hydro, in light of rising electricity prices.

The Roussillon, Kamouraska and Massif-du-Sud prospective wind projects were submitted to Hydro-Québec under its call for tenders for 2,000 MW of wind power, which closed on September 18, 2007. On May 5, 2008, Hydro-Québec Distribution announced the successful bidders. The three projects submitted by the Corporation were not retained. Consequently, the accounting value of the Massif-du-Sud prospective project was written-off, since it was located in the same area as another winning project. On the other hand, the Roussillon and Kamouraska Prospective Projects are still expected to be submitted under future Hydro-Québec calls for tenders.

The Corporation is currently engaged in discussions with communities and First Nations to submit wind projects under the Québec 250 MW Community Wind RFP and the 250 MW Aboriginal Wind RFP, which are expected to be issued in 2009, if the current price of \$95.00 per MW-hr is adjusted to reflect increasing construction costs faced by clean energy developers.

Selected Annual Information

Selected Annual Information	December 31, 2008	December 31, 2007	December 31, 2006
Revenues	\$ 5,866,535	\$ 8,048,842	\$ 6,236,995
Expenses	\$ 7,242,209	\$ 6,364,050	\$ 5,795,428
Net (loss) earnings and comprehensive income	\$ (33,909,317)	\$ 5,546,376	\$ 178,763
Per share (basic)	\$ (1.44)	\$ 1.64	\$ 0.13
Per share (diluted)	\$ (1.44)	\$ 1.64	\$ 0.13
Weighted average number of shares outstanding	23,500,000	3,383,477	1,359,473
Total assets	\$ 435,048,400	\$ 343,259,507	\$ 3,757,301
Long-term financial liabilities:			
Debt related to operating facilities	\$ 88,588,764	\$ 17,000,000	\$ -
Debt related to projects under construction	\$ 75,046,564	\$ 64,135,000	\$ -
Others	\$ 7,368,652	\$ 3,445,600	\$ 600,000
Dividends declared on common shares	\$ -	\$ 3.10	\$ -
Shareholders' equity	\$ 199,026,510	\$ 230,531,478	\$ 1,809,681

In 2008, revenues declined when compared to 2007 mainly because of the Corporation's share of the Fund's net earnings which is accounted for as revenues. In 2007, the Fund's net earnings contributed \$1.8 million to the revenues of the Corporation whereas the Fund's net loss in 2008 negatively impacted the Corporation's revenues by \$1.4 million. This accounting treatment has no impact on the cash flow of the Corporation. Nevertheless, the contribution of the Glen Miller operating facility for a full year compared to 26 days in 2007 and the start of commercial operations at the Umbata Falls and Carleton facilities helped to partially mitigate this impact. For the year 2007, the increase in revenues when compared to 2006 was due to the Corporation's share of the Fund's net earnings which is accounted for as revenues.

During the year ended December 31, 2008, expenses increased when compared to 2007 due to the recording of a non-cash expense related to the granting of stock options on December 6, 2007 and due to additional expenses related to the Corporation becoming a public company.

The Corporation recorded a net loss of \$33.9 million in 2008 compared to net earnings of \$5.5 million in 2007. This decrease is mainly due to the impairment of project development costs of \$18.3 million, the recording of unrealized losses on derivative financial instruments of \$17.7 million, the impairment of goodwill of \$3.6 million and the realized loss on derivative financial instruments of \$2.4 million, partially compensated by a future income tax recovery of \$11.7 million. These unrealized net losses on derivative financial instruments are the result of a general decrease in benchmark interest rates.

Total assets and long-term debt increased in 2008 as the Corporation completed the construction of the Umbata Falls hydroelectric project and the Carleton wind farm, continued development of the Ashlu Creek hydroelectric project and added the Fitzsimmons Creek project as part of the Creek Power Inc. Acquisition. By comparison, the increase in total assets, long-

term debt and shareholders' equity in 2007 was the result of the IPO concluded concurrently with the acquisition of Innergex II on December 6, 2007 as described under the *Overview* section of this MD&A.

The Corporation is a development company and therefore did not declare a dividend in 2008, nor does it intend to do so in the near future. Prior to its IPO in 2007, the Corporation declared a \$3.10 dividend on its 1,942,000 common shares outstanding for a total amount of \$6.0 million. The increase in the weighted average number of shares outstanding over the years is due to the IPO, which also explains the changes in net earnings and comprehensive earnings per share in 2006, 2007 and 2008.

OPERATING RESULTS

The Corporation's operating results for 2008 cover the period from January 1, 2008 to December 31, 2008, and are compared to operating results for the same period in 2007. It is important to keep in mind that for most of 2007 (339 days), the Corporation solely provided management and administrative services to the Fund and Innergex II, and owned a 15 % equity interest in Innergex II. The Corporation did not own any power generating facilities, projects under development or units of the Fund prior to December 6, 2007.

Revenues

Revenues	For the year ended December 31, 2008	For the year ended December 31, 2007
Operating revenues	\$ 4,902,132	\$ 168,673
Management fees	2,335,262	6,056,815
Share of net earnings of an entity subject to significant influence	(1,370,859)	1,823,354
Revenues	\$ 5,866,535	\$ 8,048,842

The Corporation reported revenues of \$5.9 million for the 2008 twelve-month period, compared to revenues of \$8.0 million in 2007. This decrease is mainly due to the Corporation's share of the Fund's net earnings or net loss being recorded as revenues. As manager and owner of 16.1% of the outstanding units of the Fund, the Corporation is considered, on an accounting basis, to have significant influence on the Fund. The Corporation therefore accounts for its share of the Fund's net earnings or net loss as revenues, adjusting for the amortization of intangibles and future income taxes related to the excess of the cost of its investment in the Fund over the underlying net book value of assets acquired. In 2008, the Fund's net loss reduced the Corporation's revenues by \$1.4 million whereas the Fund's net earnings in 2007 contributed \$1.8 million to revenues. The Fund's net loss in 2008 is the result of unrealized net losses on derivative financial instruments of \$21.2 million, which negatively affected the Fund's net earnings and therefore, the Corporation's share of the Fund's net earnings. The Fund's net earnings for the 26-day period ended December 31, 2007 included a \$6.7 million non-recurrent future income tax recovery which positively affected the Fund's net earnings and thereby, the Corporation's share thereof.

Share of the Net Earnings of an Entity Subject to Significant Influence	For the year ended December 31, 2008	For the year ended December 31, 2007
Corporation's 16.1% share in the Fund's net earnings	\$ (520,279)	\$ 1,062,694
Decrease in income tax rates	-	821,249
Amortization of intangibles	(1,173,214)	(83,571)
Future income taxes	322,634	22,982
Share of net earnings of an entity subject to significant influence	\$ (1,370,859)	\$ 1,823,354

The Corporation's operating facilities generated revenues of \$4.9 million in 2008, up from \$0.2 million in 2007. This improvement is due to the contribution of the Glen Miller facility for a full year and to the start of commercial operations at the Umbata Falls and Carleton facilities in November 2008. By comparison, the Corporation only benefited from a contribution by the Glen Miller hydroelectric facility for the last 26 days of 2007.

In 2008, the Corporation received \$2.2 million in management fees from the Fund. This amount includes \$0.7 million in incentive fees and \$0.2 million related to services rendered to the Fund in relation with the acquisitions of the BDS and AAV wind farms and IHI. During this same period, the Corporation also received other fees of \$0.1 million from the operators of the BDS and AAV wind farms. In 2007, the Corporation received management fees from both the Fund (\$1.7 million) and Innergex II (\$4.4 million) for a total amount of \$6.1 million. Given that Innergex II is a wholly-owned subsidiary since December 6, 2007, the Corporation no longer treats management fees from Innergex II as revenues in its consolidated financial statements.

Expenses

Operating expenses consist primarily of the operators' salaries, water rights, royalties, insurance premiums, taxes, property taxes, maintenance and repairs.

For the year ended December 31, 2008, the Corporation recorded \$0.6 million in operating expenses related to the operation of the Glen Miller hydroelectric facility over a full year and to the operation of the Umbata Falls and Carleton facilities since November 2008. By comparison, operating expenses totalled \$0.05 million in 2007 since the Glen Miller facility was included in the results for a period of only 26 days.

Concurrently with the IPO, the Corporation put in place a stock option plan. The fair value of options granted on December 6, 2007 was established as at that date and is amortized over the applicable 4-year vesting period. In 2008, a \$1.6 million non-cash stock-based expense was recorded, up from \$0.1 million in 2007.

General and administrative expenses totalled \$5.1 million in 2008, a \$1.1 million decrease over 2007. This reduction is explained by the fact that Innergex II is a wholly-owned subsidiary since December 6, 2007 and as such, the Corporation capitalizes part of its general and administrative expenses incurred in relation with project development. This decrease is partially mitigated by general and administrative expenses of approximately \$0.5 million relating to the Corporation becoming a public company.

Depreciation and Amortization

The depreciation and amortization expense totalled \$1.8 million for the year 2008 compared to \$0.3 million in 2007. This difference is mainly attributable to the depreciation of the Glen Miller hydroelectric facility for a full year versus 26 days in 2007, and to depreciation for the Umbata Falls hydroelectric facility and the Carleton wind farm, starting in November 2008.

Interest Expenses

In 2008, the Corporation incurred \$1.1 million in interest expenses on its long-term debt (\$0.1 million in 2007). This increase is due to a higher level of indebtedness stemming from the Umbata Falls and Carleton operating facilities, as well as to the interest expense on long-term debt posted for the Glen Miller facility for a full year, compared to 26 days in 2007.

Derivative Financial Instruments

The Corporation uses derivative financial instruments, primarily bond forward contracts and interest rate swaps, to manage its exposure to the risk of rising interest rates on its long-term debt. During the year ended December 31, 2008, the Corporation recorded unrealized net losses on derivative financial instruments totalling \$17.7 million (unrealized gain of \$0.6 million in 2007). These unrealized losses, the result of changes in the fair market value of interest rate swaps and bond forward contracts due to the overall decline in benchmark interest rates in 2008, had no cash impact on the Corporation's results.

In 2008, the Corporation also recorded a realized loss on a derivative financial instrument of \$2.4 million (nil in 2007) in relation with the conversion of a bond forward contract into an interest rate swap related to the Carleton wind farm project. The realized loss on this bond forward contract is compensated by an 18.5-year interest rate swap which benefits from a lower-than-expected fixed interest rate, thus protecting the project's economic value.

Other Revenues and Expenses

During the year 2008, other revenues, mainly interest earned on cash and cash equivalents, amounted to \$0.6 million (\$0.1 million in 2007). This increase is due to a higher average cash balance in 2008 compared to 2007.

The Corporation invests its cash in liquid assets such as bankers' acceptances and term deposits with short-term maturities. The Corporation did not invest in any form of asset-backed commercial paper.

Impairment of Project Development Costs

For the year ended December 31, 2008, \$18.3 million in project development costs were impaired (\$0.1 million in 2007). These impairments relate to the Mkw'Alts (\$10.2 million), Les Méchins (\$2.4 million), Massif-du-Sud (\$1.5 million) and various other prospective wind projects (\$4.2 million).

The Mkw'Alts project was written off due to the uncertainty of the outcome of ongoing negotiations with interested parties, mainly the Lil'wat Nation.

Les Méchins was written off because of uncertainty surrounding the possibility of entering into a new turbine supply agreement with a manufacturer in replacement of General Electric, and because of the status of negotiations with some private landowners.

The Massif-du-Sud project was also written off since the public lands where the project was to be located were assigned to a competitor by the government in May 2008, following the Hydro-Québec 2,000 MW wind power call for tenders.

Impairment of Goodwill

The Corporation conducted an annual goodwill impairment test for the year ended December 31, 2008. Based on the result of this test, an impairment charge of \$3.6 million (nil in 2007) was required for the site development and management segment.

Unusual Income

The unusual income reported in 2007 (nil in 2008) is related to a one-time distribution of \$4.3 million, received from Innergex II, for capital gains earned following the sale to the Fund of the Rutherford Creek, Baie-des-Sables and Anse-à-Valleau projects prior to or concurrently with the IPO. This distribution was characterized as being unusual and non-recurrent.

Provision for Income Taxes

The recovery for current income taxes was \$0.01 million in 2008 compared to a \$0.3 million provision in 2007. Current income taxes in 2007 resulted mainly from the taxable distribution received from Innergex II prior to the IPO.

In 2008, the Corporation recorded a future income tax recovery of \$11.7 million mainly stemming from unrealized losses on derivative financial instruments and from the impairment of project development costs. In 2007, the Corporation recorded a future income tax provision of \$0.3 million.

Net (Loss) Earnings and Comprehensive (Loss) Income

The Corporation posted a net loss and comprehensive loss of \$33.9 million (basic and diluted loss of \$1.44 per share) for the period. For the corresponding period in 2007, the net earnings and comprehensive income totalled \$5.5 million (basic and diluted earnings \$1.64 per share). This difference is mainly attributable to the impairment of project development costs (\$18.3 million), the unrealized losses on derivative financial instruments (\$17.7 million), the impairment of goodwill (\$3.6 million), the realized loss on derivative financial instruments (\$2.4 million) and the Corporation's share of the Fund's net loss (\$1.4 million), partially mitigated by an income tax recovery of \$11.7 million. Net earnings in 2007 also benefited from the \$4.3 million in unusual income.

No additional common share was issued in 2008. Consequently, basic per-share figures are based on a weighted average number of 23,500,000 shares for 2008, compared to 3,383,477 shares in 2007. The weighted average number of shares in 2007 is explained by the following events:

- i) On December 4, 2007, the Corporation amended its authorized capital to allow for an unlimited number of common shares and preferred shares to be issued and to cancel the then existing Class B shares.
- ii) On December 4, 2007, the Corporation issued 1,942,001 common shares upon the conversion of 8,081 Class B shares, and on December 6, 2007 it issued 10,455,000 common shares pursuant to its IPO. Concurrently with the IPO, the Corporation issued 11,102,999 common shares through a private placement.
- iii) On December 6, 2007, the Corporation granted 1,410,000 options entitling the holders to purchase a total of 1,410,000 common shares at \$11.00 per share. The options are valid for a 10-year period and 25% become vested on each anniversary of the grant date.

Diluted per-share figures for the year ended December 31, 2008 are based on a weighted average number of 23,500,000 shares outstanding, compared to a weighted average of 3,384,096 shares outstanding for the year ended December 31, 2007.

As at March 25, 2009, December 31, 2008 and December 31, 2007, the Corporation had a total of 23,500,000 common shares outstanding.

NET OPERATING CASH FLOWS

The Corporation believes that net operating cash flows represents important additional information for management and the reader because it provides a measure of the cash generated by the Corporation's assets by excluding certain non-cash, unusual and non-recurring items and including a significant cash element (e.g. distributions received from an entity subject to significant influence). The Corporation calculates net operating cash flows as demonstrated below:

Net Operating Cash Flows	For the year ended December 31, 2008	For the year ended December 31, 2007
Net (loss) earnings	\$ (33,909,317)	\$ 5,546,376
Add / (deduct):		
Future income taxes	(11,720,332)	326,357
Unusual income	-	(4,330,478)
Impairment of goodwill	3,604,865	-
Impairment of project development costs	18,250,216	65,087
Unrealized net loss (gain) on derivative financial instruments	17,665,163	(574,798)
Depreciation and amortization	1,848,547	306,295
Non-cash stock-based compensation	1,563,627	130,302
Share of net loss (earnings) from an entity subject to significant influence	1,370,859	(1,823,354)
Distributions received from an entity subject to significant influence	4,708,899	-
Net Operating Cash Flows	\$ 3,382,527	\$ (354,213)

In 2008, the Corporation generated \$3.4 million in net operating income, compared to negative \$0.4 million in 2007. This increase mainly stemmed from the Operating Facilities' contribution and from distributions received from the Fund.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows from Operating Activities

For the year ended December 31, 2008, cash flows used by operating activities totalled \$11.6 million, compared to cash flow generation of \$6.3 million in 2007. This change is mainly due to a negative \$10.2 million variation in non-cash working capital items (positive \$2.3 million in 2007) stemming from increases of \$3.8 million and \$0.9 million in accounts receivable and prepaid expenses, respectively, and from a decrease in accounts payable and accrued liabilities of \$5.5 million. Furthermore, cash flow generated by operating activities in 2007 benefited from a one-time distribution of \$4.3 million from Innergex II.

Cash Flows from Financing Activities

In 2008, cash flows from financing activities totalled \$93.2 million, mostly as a result of net increases in bank loan (\$7.8 million) and long-term debt (\$84.4 million). This higher level of debt has resulted from projects under construction, namely Ashlu Creek and Fitzsimmons Creek, and completed projects, namely the Umbata Falls and Carleton facilities.

In 2007, cash flow from financing activities totalled \$95.7 million. This amount includes the proceeds from the issuance of share capital for \$237.1 million, offset by \$12.0 million in issuance costs and \$124.1 million in long-term debt repayment. The issuance of shares and issuance costs are related to the IPO, and the debt repayment is related to the repayment of outstanding indebtedness owed by Innergex II to institutional investors. In 2007, the Corporation also paid a \$6.0 million dividend to its shareholders prior to the IPO.

Cash Flows from Investing Activities

The Corporation's cash flows from investing activities for the period were negative at \$110.4 million. From this amount, \$8.7 million were used for the Creek Power Inc. Acquisition, including the Fitzsimmons Creek project; \$97.9 million for additions to property, plant and equipment, mostly related to the Carleton, Ashlu Creek and Umbata Falls projects; \$2.0 million for additions to intangible assets; and \$6.4 million for additions to project development costs. These amounts were partially offset by distributions totalling \$4.7 million received from the Corporation's 16.1% interest in the Fund, an entity under significant influence.

The Corporation's cash flows from investing activities for the corresponding period of 2007 were negative at \$67.8 million. The acquisition of Innergex II represented a net cash outflow of \$64.1 million, while additions to property, plant and equipment

consumed \$5.0 million and additions to project development costs used \$0.6 million. These amounts were partially offset by a \$2.1 million decrease in distributions receivable from Innergex II.

The consolidation of Innergex II in the financial statements of the Corporation since December 6, 2007 explains the increased cash flows used by investing activities in 2008, when compared to 2007.

Cash and Cash Equivalents

In 2008, the Corporation used \$28.7 million in cash and cash equivalents, mainly to finance the construction of the Ashlu Creek project as well as the Creek Power Inc. Acquisition and, subsequently, the construction of the Fitzsimmons Creek project. The Corporation expects that future construction costs to complete the Ashlu Creek project will be financed through the project's debt facility. The Corporation also expects to recover a portion of the amounts invested in the Fitzsimmons Creek project upon the execution of the project's credit agreement.

As at December 31, 2008, the Corporation had cash and cash equivalents amounting to \$6.0 million. As at the same date in 2007, it had reported cash and cash equivalents of \$34.7 million, mainly as a result of the IPO.

Use of all Financing Proceeds

In 2008, the Corporation borrowed \$92.9 million after accounting for related fees of \$1.2 million, issued \$0.2 million in warrants and used cash and cash equivalents of \$22.8 million to finance the Creek Power Inc. Acquisition (\$8.7 million), the ongoing construction and development of power projects (total of \$106.5 million), and to repay \$0.8 million in long-term debt. On December 6, 2007, the Corporation issued \$115.0 million and \$122.1 million worth of shares via a public offering and a private placement, respectively. Net proceeds from these two issuances amounted to \$225.1 million after taking into account related fees of \$12.0 million. Those net proceeds were used to acquire the equity interest in Innergex II that the Corporation did not already own (\$63.4 million), to finance the construction of power projects (\$5.0 million), to repay or purchase the promissory notes owed by Innergex II to institutional investors (\$123.9 million), and to pay \$3.8 million in dividends to its shareholders. Most of the excess amount of \$28.4 million was attributed to cash and cash equivalents, as the Corporation was then expecting to use these funds in 2008 to finance the construction of power projects.

Use of all Financing Proceeds	For the year ended December 31, 2008	For the year ended December 31, 2007
Proceeds from debt issuance	\$ 94,061,000	\$ -
Less: Issuance costs	(1,184,407)	-
Issuance of warrants	175,000	-
Issuance of shares:		
December 6, 2007 – public offering	-	115,005,000
December 6, 2007 – private placement	-	122,132,989
Less: Issuance costs	-	(12,037,763)
	\$ 93,051,593	\$ 225,100,226
Business acquisitions:		
Creek Power Inc	\$ 8,674,274	\$ -
Innergex II Income Fund	-	63,364,165
Additions to property, plant and equipment	97,913,350	4,971,680
Additions to intangibles assets	2,012,282	-
Additions to project development costs	6,445,445	646,712
Additions to other long-term assets	83,319	95,094
Long-term debt repayment	772,916	-
Repayment or purchase of promissory notes owed by Innergex II	-	123,875,000
Dividend to shareholders of the Corporation	-	3,781,079
	\$ 115,901,586	\$ 196,733,730
(Utilization of) Contribution to working capital	\$ (22,849,993)	\$ 28,366,496

FINANCIAL POSITION

Assets

As at December 31, 2008, the Corporation had \$435.0 million in total assets, compared to \$343.3 million in total assets as at the same date in 2007. This increase stems from the construction and completion, in 2008, of the Umbata Falls hydroelectric project and the Carleton wind farm project. Ongoing construction of the Ashlu Creek and Fitzsimmons Creek projects, and the Creek Power Inc. Acquisition also contributed to the increase in total assets.

Working Capital

As at the end of 2008, working capital was negative at \$28.1 million, with a working capital ratio of 0.52:1.00. When excluding the negative market value of derivative financial instruments of \$20.4 million, working capital was negative at \$7.7 million with an adjusted working capital ratio of 0.80:1.00. As at the end of 2007, working capital was \$34.3 million and the working capital ratio was 2.69:1.00. The decrease from 2007 to 2008 was not unexpected, since the Corporation had \$34.7 million in cash and cash equivalents as at December 31, 2007, as a result of the IPO that took place 26 days earlier, on December 6, 2007. As planned, part of this amount was used to fund project development and construction. It was also used to finance the Creek Power Inc. Acquisition.

Given (i) the expected cash flow contribution from the Corporation's three operating facilities, (ii) the Ashlu Creek project financing which does not require the Corporation to invest additional equity, and (iii) the execution of a committed term sheet in relation with the debt financing of the Fitzsimmons Creek project, whereas such financing should enable the Corporation to recover a portion of its equity investment in the project, the Corporation considers its current level of working capital to be sufficient to meet its needs. However if necessary, the Corporation could postpone the development of Prospective Projects and/or of Development Projects not already in construction in order to preserve cash. The Corporation can also use its bank credit facility which was for an amount of \$25.0 million as at December 31, 2008, but has since been increased to \$30.0 million on February 27, 2009. As at December 31, 2008, \$9.8 million of this credit facility had been drawn as cash advances, \$7.3 million used for the issuance of letters of credit and \$4.2 million reserved as collateral to secure bond forward contracts. The unused and available portion of the bank credit facility was therefore \$3.8 million as at December 31, 2008.

Accounts receivable increased from \$19.6 million as at December 31, 2007 to \$22.9 million as at December 31, 2008. They include \$8.8 million in receivables from Hydro-Québec and \$6.9 million in commodity tax receivables, mostly stemming from the Carleton wind farm.

Accounts payable and accrued liabilities fell from \$14.8 million as at December 31, 2007 to \$12.0 million as at the end of 2008. This line item is comprised mainly of trade payables and holdbacks related to construction of the Ashlu Creek, Carleton, Umbata Falls and Fitzsimmons Creek projects, among others.

Derivative financial instruments included in current liabilities grew to \$20.4 million as at December 31, 2008, from \$3.5 million as at the same date in 2007. This increase is mainly due to the overall decline in benchmark interest rates experienced since December 31, 2007, which resulted in unrealized losses on derivative financial instruments.

The current portion of long-term debt relates to the Glen Miller, Umbata Falls and Carleton credit facilities.

Property, Plant and Equipment

Property, plant and equipment are mainly comprised of hydroelectric and wind farm projects that are either in operation or under construction. They are recorded at cost and depreciated using the straight-line method, based on their estimated useful lives upon commissioning. The Corporation had \$229.5 million in property, plant and equipment on its books as at December 31, 2008 as compared to \$111.4 million as at December 31, 2007. This increase stems from development and capital expenditures incurred to bring the Umbata Falls and Carleton projects to the commercial operation stage in November 2008, and from ongoing development and capital expenditures on the Ashlu Creek and Fitzsimmons Creek projects that are currently under construction.

		For the year ended December 31, 2008		For the year ended December 31, 2007	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value	
Hydroelectric facilities	\$ 52,633,511	\$ 902,535	\$ 51,730,976	\$ 18,763,440	
Wind farm facility	67,723,021	290,230	67,432,791	-	
Hydroelectric facilities under construction	109,850,884	-	109,850,884	81,941,014	
Wind farm facility under construction	-	-	-	10,139,750	
Other equipments	1,428,228	915,575	512,653	579,124	
	\$ 231,635,644	\$ 2,108,340	\$ 229,527,304	\$ 111,423,328	

Intangible Assets

The intangible assets consist of various permits, licences and agreements. The Corporation reported \$44.4 million in intangible assets as at December 31, 2008, compared to \$40.8 million as at December 31, 2007. The Creek Power Inc. Acquisition explains this increase. Intangible assets are amortized using the straight-line method over 20-to-40-year periods that commence when the related project is commissioned.

Project Development Costs

Project development costs represent costs incurred to research, acquire and develop power-generating facilities. These costs are transferred to either, property, plant and equipment, or intangible assets, depending on their nature thereof, once a project reaches the construction phase. As at December 31, 2008, the Corporation had \$31.0 million in project development costs (\$37.3 million as at December 31, 2007). This amount represents Development Projects in the permit phase and Prospective Projects. The impairment of project development costs associated with the Mkw'Alts, Les Méchins and Massif-du-Sud prospective projects explains most of the decrease, which was partially mitigated by the Creek Power Inc. Acquisition.

Investment in an Entity Subject to Significant Influence

The \$57.1 million investment in an entity subject to significant influence (\$63.1 million as at December 31, 2007) refers to the 4,724,409 Fund units owned by the Corporation, representing a 16.1% interest in the Fund. This investment is accounted for using the equity method.

Future Income Taxes

The tax impact of temporary differences may result in material future tax assets or liabilities. As at December 31, 2008, the Corporation's net future income tax asset was \$5.6 million, versus a net future income tax liability of \$4.6 million as at December 31, 2007. This net tax asset results from the net loss before taxes realized in 2008.

Goodwill

The Corporation had \$31.2 million in goodwill as at December 31, 2008, compared to \$30.6 million as at the same date in 2007. This \$0.6 million increase stems from the Creek Power Inc. Acquisition (\$2.8 million) and a review of the purchase price allocation of Innergex II made in 2008 (\$1.5 million), partially mitigated by a \$3.6 million impairment.

Other Long-Term Assets

Other long-term assets, mainly comprised of derivative financial instruments, stood at \$1.3 million at the end of the period. As at December 31, 2007, the amount recorded for this line item was \$2.2 million and included a loan granted to a partner, which is now due within a year and classified in accounts receivable, as well as derivative financial instruments.

Long-Term Debt

As at December 31, 2008, long-term debt stood at \$165.5 million compared to \$81.1 million at the end of 2007. As at the end of 2008, long-term debt consisted of:

- i) a \$16.5 million non-recourse term loan secured by the Glen Miller hydroelectric facility maturing in 2011. Principal repayments began during the third quarter of 2008 at the rate of \$250,000 per quarter including a bullet payment at the end of the term. The loan bears interest at the bankers' acceptances ("BA") rate plus an applicable credit margin.
- ii) a \$51.0 million non-recourse construction loan, of which \$43.4 million has been drawn (of this amount, \$21.3 million represents the Corporation's 49% ownership interest in the project) and is secured by the Umbata Falls hydroelectric facility. This loan matures five years following term conversion. The loan's principal payments will begin on term conversion and will be based on a 20-year amortization period. The loan bears interest at the BA rate plus an applicable credit margin.
- iii) a \$53.4 million non-recourse term loan maturing in 2013 secured by the Corporation's 38% interest in the Carleton wind farm, of which \$51.9 million was outstanding at the end of 2008. Principal payments on the loan, which are based on an 18.5-year amortization period, began on December 31, 2008. The loan bears interest at the BA rate plus an applicable credit margin. As part of the Carleton project, the lenders also agreed to provide two short-term loans: a) the Hydro-Quebec TransEnergie ("HQT") substation loan and b) the GST/PST loan, both maturing on March 31, 2009. As at December 31, 2008, \$7.3 million and \$5.5 million were drawn on the HQT substation loan and the GST/PST loan, respectively. Both loans bear interest at the BA rate plus an applicable credit margin. The Corporation will reimburse the HQT substation loan upon receipt of the substation reimbursement by HQT. It will also reimburse the GST/PST loan upon refund from the governmental agencies of the Federal goods and services tax and Provincial sales tax paid along with purchase of the wind turbines.
- iv) a \$110.0 million non-recourse construction loan of which \$64.5 million has been drawn as at December 31, 2008. The loan is secured by the Ashlu Creek hydroelectric facility and matures 15 years following term conversion. The loan's principal payments will begin on term conversion and will be based on a 25-year amortization period. The loan bears interest at the BA rate plus an applicable credit margin.

If they are not met, certain financial and non-financial conditions included in the credit agreements entered into with certain of the Corporation's subsidiaries could limit the ability of these subsidiaries to transfer funds to the Corporation. These restrictions could have a negative impact on the Corporation's ability to meet its obligations. Since the beginning of the 2008 fiscal year, the Corporation and its subsidiaries have met all the financial and non-financial conditions related to their credit agreements except for the construction financing of the Ashlu Creek hydroelectric project, which provided for a specific expected in-service date and equity funding requirements. On October 9, 2008, the Corporation and the lenders agreed on an amended credit agreement reflecting a rescheduled in-service date (as agreed to by BC Hydro) as well as the additional equity invested by the Corporation for the completion of the project.

Shareholders' Equity

As at December 31, 2008, the Corporation's shareholders' equity totalled \$199.0 million, as compared to \$230.5 million as at December 31, 2007. The difference is mainly attributable to the \$33.9 million net loss recorded in 2008, which has been partially offset by the issuance of \$0.2 million in warrants, a \$1.6 million increase in contributed surplus related to stock-based compensation and an adjustment for a net decrease in common share issuance costs of \$0.7 million.

Expected Contractual Obligations as at December 31, 2008

Contractual Obligations	Total	Under 1 year	1 to 3 years	4 to 5 years	Over 5 years
Long-term debt including accrual for acquisition of long-term assets	\$ 179,629,311	\$ 15,993,983	\$ 11,993,848	\$ 62,496,456	\$ 89,145,024
Interest on long-term debt	85,145,995	9,056,390	16,608,031	14,819,297	44,662,278
Operating leases	3,449,973	91,000	188,881	198,443	2,971,650
Purchase (Contractual) obligations	47,889,356	35,427,820	9,226,862	630,401	2,604,273
Holdbacks	5,057,542	-	5,057,542	-	-
Other	1,504,442	495,520	864,313	144,608	-
Total contractual obligations	\$ 322,676,620	\$ 61,064,712	\$ 43,939,478	\$ 78,289,205	\$ 139,383,225

¹ Purchase obligations are mainly derived from turbine supply agreements and engineering, procurement and construction contracts.

² Other long-term obligations are mainly comprised of office leases.

Off-balance Sheet Arrangements

There were no off-balance sheet arrangements as at December 31, 2008 and December 31, 2007.

RELATED PARTY TRANSACTIONS

As Manager of the Innergex Power Income Fund

The Corporation provides services to the Fund and its subsidiaries under three agreements: a Management Agreement, an Administration Agreement, and a Services Agreement. In 2008, the Corporation received \$2.2 million for regular services provided under these three agreements (\$1.8 million in 2007). This amount is comprised of \$0.94 million for management services (\$0.89 million in 2007); \$0.25 million for services rendered during the BDS, AAV, and IHI acquisitions, compared to an amount of \$0.40 million invoiced in 2007 for expenses related to the study of uncompleted acquisitions; \$0.11 million for additional services (\$0.11 million in 2007); \$0.74 million in incentive fees (\$0.33 million in 2007); \$0.11 million for administrative services (\$0.11 million in 2007) and \$0.06 million for services rendered to the BDS and AAV wind farms operators (nil in 2007).

As an Innergex Power Income Fund Investor

The Corporation's investment in Fund units, along with related earnings, are described in details in the *Operating Results* section of this MD&A under *Revenues*.

As Manager of the Innergex II Income Fund

Prior to its acquisition on December 6, 2007, the Corporation provided management services to Innergex II. Revenues from management fees totalled \$4.3 million for the year ended December 31, 2007.

SEGMENT INFORMATION

The Corporation has three reportable segments: (a) hydroelectric production; (b) wind power production and (c) development and management of sites.

Through its hydroelectric production and wind power production segments, the Corporation sells electricity produced from its hydroelectric and wind farm facilities to publicly-owned utilities. Through its site development and management segment, it develops hydroelectric and wind farm facilities to the operational stage and then manages them.

The accounting policies for these segments are the same as those described in the significant accounting policies provided in this year's consolidated audited financial statements. The Corporation evaluates performance based on earnings (loss) before interest, income taxes, depreciation and amortization and other items, and accounts for inter-segment and management sales at cost. Any transfers of assets from the site development and management segment to the hydroelectric or wind power production segments are accounted for at cost.

The Corporation's reportable segments conduct their operations and activities using different teams as each segment has different skills requirements. There were no segments prior to December 6, 2007 since they were acquired on that date.

Year ended December 31, 2008				
	Hydroelectric Production	Wind Power Production	Development and Management of Sites	Total
	\$	\$	\$	\$
Revenues from external customers	3,594,469	1,336,989	935,077	5,866,535
Operating expenses	525,094	88,880	-	613,974
Operating income	3,069,375	1,248,109	935,077	5,252,561
General and administrative expenses	48,303	73,056	6,506,876	6,628,235
Earnings (loss) before interest, income taxes, depreciation and amortization and other items	3,021,072	1,175,053	(5,571,799)	(1,375,674)
Long-term assets	62,069,217	83,083,645	259,804,429	404,957,291
Goodwill	733,000	2,104,000	28,379,790	31,216,790
Total assets	63,768,010	102,839,825	268,440,565	435,048,400
Acquisitions of long-term assets	468,199	-	135,998,124	136,466,323

Over the past year, transfers of assets (from) to the segments, upon commissioning of the Umbata Falls and the Carleton facilities, were the following:

	\$	\$	\$	\$
Long-term assets	37,406,908	83,441,351	(120,848,259)	-
Goodwill	733,000	2,104,000	(2,837,000)	-
Total assets	38,345,259	103,197,530	(141,542,789)	-

Year ended December 31, 2007				
	Hydroelectric Production	Wind Power Production	Development and Management of Sites	Total
	\$	\$	\$	\$
Revenues from external customers	168,673	-	7,880,169	8,048,842
Operating expenses	50,076	-	-	50,076
Operating income	118,597	-	7,880,169	7,998,766
General and administrative expenses	2,855	-	6,311,119	6,313,974
Earnings before interest, income taxes, depreciation and amortization and other items	115,742	-	1,569,050	1,684,792
Long-term assets	25,313,901	-	263,349,920	288,663,821
Goodwill	-	-	30,552,578	30,552,578
Total assets	25,571,910	-	317,687,597	343,259,507
Acquisitions of long-term assets	-	-	4,480,188	4,480,188

Hydroelectric Production Segment

During the year ended December 31, 2008, the Glen Miller hydroelectric facility produced 45,842 MW-hr, a level that exceeded the long-term average of 41,606 MW-hr by 10%, due to better hydrological conditions which more than compensated for the impact of a five-week partial shutdown of the facility that occurred in the first quarter of 2008. This partial shutdown of one of the two turbines was caused by a failure of the generator's downstream guide bearing. Repairs were performed under the manufacturer's warranty.

This segment also benefited from the start of commercial operations at the Umbata Falls facility on November 12, 2008, which contributed an additional 6,006 MW-hr of power production. The electricity produced by the two facilities in 2008 resulted in revenues of \$3.6 million.

The Corporation recorded \$0.5 million in operating expenses related to the hydroelectric facilities as well as \$0.05 million in general and administrative expenses in 2008. As a result, the segment generated EBITDA of \$3.0 million during the last year.

Increases to long-term assets and total assets since December 31, 2007 have been the results of the completion of the Umbata Falls project.

The results of the hydroelectric facilities have a seasonal character due to variations in the hydrological conditions from one quarter to another during a typical year. As such, quarterly results should not be extrapolated over a full year. Gross operating revenues are generally at their highest in the second and third quarters of any given year.

Wind Power Production Segment

During the 40-day period that elapsed since the start of commercial operations on November 22, 2008, the Carleton wind farm produced 16,270 MW-hr, a level below the long-term average of 18,829 MW-hr due to usual start-up issues and to below-average wind conditions. After adjusting production statistics for the Corporation's 38% interest in the facility, the Carleton wind farm generated revenues of \$1.3 million. The Corporation also recorded \$0.09 million in operating expenses related to the wind power facility as well as \$0.07 million in general and administrative expenses in 2008. As a result, the facility generated EBITDA of \$1.2 million during the last 40 days of 2008.

Long-term and total assets since December 31, 2007 have increased as a result of the Carleton project's completion.

Results achieved by the Carleton wind farm are seasonal in nature, due to quarterly variations in wind conditions during a typical year. As such, quarterly results should not be extrapolated over a full year. Gross operating revenues are generally at their highest in the first and fourth quarters of any given year.

Development and Management of Sites Segment

As the manager and owner of 16.1% of the outstanding units of the Fund, the Corporation is considered, from an accounting point of view, to have significant influence on the Fund. Therefore, the Corporation accounts for its share of the Fund's net results as revenues, with adjustments for the amortization of intangibles and future income taxes related to the excess of the cost of its investment in the Fund over the underlying net book value of the assets acquired.

For the period ended December 31, 2008, the Corporation recorded a net loss of \$1.4 million from its share of an entity subject to significant influence.

In 2008, the Corporation also received \$2.2 million and \$0.1 million in management fees from the Fund and the BDS and AAV wind farms operators, respectively. Since Innergex II has been a wholly-owned subsidiary since December 6, 2007, the Corporation has not recorded management fees from Innergex II as income in its consolidated financial statements since then.

General and administrative expenses for 2008 totalled \$6.5 million and included a \$1.6 million non-cash expense related to stock-based compensation.

As a result, the segment's EBITDA for 2008 was negative at \$5.6 million.

Increases to long-term assets since December 31, 2007 are mainly attributable to construction of the Ashlu Creek and Fitzsimmons Creek projects, partially mitigated by completion of the Umbata Falls and Carleton projects, which are now presented in their respective segment.

CRITICAL ACCOUNTING ESTIMATES

The critical accounting estimates for the Corporation are related to the valuation of assets acquired and liabilities assumed in business acquisitions, impairment of assets, useful lives for depreciation and amortization, and future income taxes. Fixed assets, mainly comprised of hydroelectric and wind power generating facilities, are recorded at cost. Financing costs related to the construction of fixed assets are capitalized when incurred. Depreciation of hydroelectric and wind power generating facilities is based on the estimated useful life of the assets using the straight-line method over the lesser of a period of 50 years for the hydroelectric facilities and 25 years for the wind facilities and the period for which the Corporation owns the right to the assets. Intangible assets consist of various permits, licences and agreements related to the hydroelectric and wind power generating facilities. These intangible assets are amortized using the straight-line method over the period when the facility becomes commercially operational until the first maturity date of permits, licences and agreements for each facility. Other significant accounting policies are listed in Note 2 to the financial statements.

ACCOUNTING CHANGES

The Canadian Institute of Chartered Accountants (CICA) issued the following new Sections:

a) Modifications applied in 2008:

Section 1535 of the *CICA Handbook, Capital Disclosures*, requires an entity to disclose information to allow its financial statement users to evaluate its objectives, policies and procedures for managing capital. The Section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The application of this section requires additional disclosures that are presented in Note 24 to the financial statements.

Section 3031 of the *CICA Handbook, Inventories* establishes practices for the measurement and disclosure of inventories. Application of these practices didn't require any adjustments of the retained earnings' opening balance but required a reclassification from the other short-term assets to the property, plant and equipment for an amount of \$31,310. Annual charge of depreciation will be increased by \$1,122.

b) Future accounting changes:

CICA Handbook Section 3064, Goodwill and Intangible Assets, replaces *Section 3062, Goodwill and Other Intangible Assets*, and *Section 3450, Research and Development Costs*. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section, issued in February 2008, will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Corporation will adopt the new standard for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Corporation's activities include pre-development costs that are capitalized into the costs of new projects. Starting January 1, 2009, these costs will be expensed as incurred. The application of this new standard is retroactive and will require the Corporation to expense pre-development costs previously capitalized. The Corporation is currently assessing the future impact of this new standard on its consolidated financial statements.

The *CICA Handbook EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities* states that the credit risk of counterparties should be taken into account in determining the fair value of derivative financial instruments. The Corporation has already considered the effect of EIC-173 in measuring its derivative financial instruments for the year ended December 31, 2008. The Corporation does not foresee that the application of EIC-173 will have an impact on its consolidated financial statements in 2009.

CICA Handbook Section 1582, Business Combinations. This new Section will be applicable to business combinations for which the acquisition date is on or after the Corporation's interim and fiscal year beginning January 1, 2011. Early adoption is permitted. This section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects.

Section 1601 Consolidated financial statements. This new Section will be applicable to financial statements relating to the Corporation's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for the preparation of consolidated financial statements. The Corporation has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

Section 1602, Non-Controlling interests. This new Section will be applicable to financial statements relating to the Corporation's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section

establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Corporation has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

c) International Financial Reporting Standards (“IFRS”):

The Canadian Accounting Standards Board has announced the adoption of International Financial Reporting Standards (“IFRS”) for publicly accountable enterprises in Canada. Effective January 1, 2011, companies must convert from Canadian GAAP to IFRS. Accordingly, the Corporation will adopt IFRS effective in the quarter ending March 31, 2011. The Corporation has begun to develop plans to implement the new standards. A calendar of all steps to be followed by the Corporation has been established in order to meet the conversion date. The Corporation cannot at this time reasonably estimate the impact on its consolidated financial statements of adopting IFRS.

RISK MANAGEMENT

The Corporation uses derivative financial instruments to manage its exposure to the risk of an increase in the interest rates on its debt financing. Since these financial instruments are entered into with major financial institutions, the Corporation considers the risk of illiquidity to be low.

Given that the Corporation’s debt is at variable interest rates, it uses bond forward contracts and interest rate swaps to protect the economic return of its projects under construction and operating facilities. The Corporation does not intend to settle its derivative financial instruments before maturity, since it does not own or issue any financial instruments for speculation purposes.

DERIVATIVE FINANCIAL INSTRUMENTS

As at December 31, 2008, the Corporation had one interest rate swap in an amount of \$53.1 million related to the Carleton wind farm, seven bond forwards contracts totalling \$110.0 million related to the Ashlu Creek project (the “Ashlu Bond Forwards”) and two other bond forwards contracts totalling \$35.0 million related to the Umbata Falls project (the “Umbata Bond Forwards”). As of that date, their combined fair market value was negative at \$22.7 million. Unrealized net losses on derivative financial instruments in 2008, caused by the general decline in benchmark interest rates, explain this increase in the negative value of derivative financial instruments. As at December 31, 2007, the total notional amount of derivative financial instruments was \$176.2 million and their combined fair market value was negative at \$5.0 million. These amounts are reported on the balance sheet under *Derivative financial instruments* and their variations are accounted for in the statement of earnings under *Net loss on derivative financial instruments*. The Corporation does not use hedge accounting for its derivative financial instruments.

In 2008, the Corporation entered into an amortizing interest rate swap contract related to the Carleton wind farm in an amount of \$53.4 million, allowing it to fix the interest rate at 3.45% until the March 2027 maturity date (the “Carleton Swap”), thus eliminating its exposure to floating interest rates on this amount. It also extended the maturity dates of the Umbata Bond Forwards to January 28, 2009 and of the Ashlu Bond Forwards to March 16 and 17, 2009. The Corporation intends to roll or extend these bond forward contracts, or enter into new bond forward contracts or equivalent swaps, in order to match the maturity of the underlying debt and protect its projects’ economic value.

Since the end of the year 2008, on January 28, 2009, the Umbata Bond Forwards were rolled into an interest rate swap allowing the Corporation to pay a fixed interest rate. Furthermore, on March 16, 2009, one bond forward contract (notional of \$25.0 million) of the Ashlu Bond Forwards was extended to June 16, 2009 and the remaining six (notional of \$85.0 million) were extended to March 31, 2009.

Failure to further extend the maturity of the Ashlu Bond Forwards could result in a shortfall of liquidity. Nevertheless, the Corporation and its subsidiaries have historically been able to extend/renew bond forward contracts, or obtain outside financing to meet their capital requirements. Once projects are completed and operational, bond forward contracts are expected to be rolled into interest rate swaps allowing the Corporation to protect its projects’ economic value.

The exercise of the early termination option imbedded in the Carleton Swap by the counterparty could also result in a shortfall of liquidity. Nonetheless, the early termination option is only exercisable on one specific occasion, e.g. on December 1, 2013. Should the early termination option be exercised, a presumed realized loss would be compensated by the savings realized on future interest expenses since a negative swap value would be the result of an environment in which interest rates would be lower than that embedded in the swap. The Corporation estimates the probability of such an exercise to be negligible.

In 2005, Innergex II (now a subsidiary of the Corporation) sold the 50 MW Rutherford Creek hydroelectric project to the Fund. Rutherford Creek Power, Limited Partnership, which owns the asset, has agreed, following the expiry or termination of the Rutherford Creek PPA in September 2024, to pay royalties to Innergex II based on achieving certain revenue thresholds. As at December 31, 2008, the fair value of this financial instrument was \$0.8 million (\$0.7 million as at December 31, 2007). This amount is recorded in the balance sheet under *Other long-term assets*, and changes in this account are shown on the statement of earnings under *Unrealized net loss (gain) on derivative financial instruments*.

RISKS AND UNCERTAINTIES

The Corporation is exposed to a variety of business risks, of which it has outlined below those that it considers to be material. Additional risks and uncertainties not presently known to the Corporation, or that it currently believes to be immaterial, may, however, also adversely affect its business. Additional risks and uncertainties can be found in the *Risk Factors* section in the Corporation's Annual Information Form for the year ended December 31, 2008.

Execution of Strategy

The Corporation's strategy for building shareholder value is to acquire or develop high-quality power generation facilities that generate sustainable and increasing cash flows, with the objective of achieving appropriate returns on invested capital. However, there is no certainty that the Corporation will be able to acquire or develop high-quality power generation facilities at attractive prices to supplement its growth. The successful execution of a value investment strategy requires careful timing and business judgment, as well as the resources to complete the development of power generating assets. The Corporation may underestimate the costs necessary to bring power generating facilities into commercial operation or may be unable to quickly and efficiently integrate new acquisitions into its existing operations.

Capital Resources

Future development and construction of new facilities and the development of the Development Projects and the Prospective Projects and other capital expenditures will be financed out of cash generated from the Corporation's operating facilities, investment in the Fund, borrowings and/or issuance of additional equity. To the extent that external sources of capital, including issuance of additional securities of the Corporation, become limited or unavailable, the Corporation's ability to make necessary capital investments to construct new or maintain existing project facilities and remain in business will be impaired. There is no certainty that sufficient capital will be available on acceptable terms to fund further development or expansion.

The Corporation's capital-raising efforts could involve the issuance and sale of additional common shares, or debt securities convertible into its common shares, which, depending on the price at which such shares are issued or converted, could have a material dilutive effect on holders of the Corporation's common shares and adversely impact the trading price of the Corporation's common shares.

Derivative Financial Instruments

Derivative financial instruments are entered into with major financial institutions and their effectiveness is dependant on the performance of these institutions. Failure by one of them to perform its obligations could involve a liquidity risk. Liquidity risks related to derivative financial instruments also include the settlement of bond forward contracts on their maturity dates and the early termination option included in some interest rate swap contracts. The Corporation uses derivative financial instruments to manage its exposure to the risk of an increase in interest rates on its debt financing. The Corporation does not own or issue financial instruments for speculation purposes.

Current Economic and Financial Crisis

As of the publication date of this MD&A, significant challenges relating to obtaining debt and equity financing existed as a result of the worldwide economic and financial crisis. Accordingly, the Corporation cannot assure that additional financing required to develop and build the Development and Prospective Projects will materialize on a timely basis, be obtained on commercially acceptable terms or be available at all. If the Development Projects are not brought into commercial operation within the delay stipulated in their respective PPA, the Corporation may be subject to penalty payments or the counterparty may be entitled to terminate the related PPA.

Hydrology and Wind Regime

The amount of energy generated by the operating facilities is generally dependent on the availability of water flows and the wind regime. Lower-than-expected flows or wind regimes in any given year could have an impact on the Corporation's revenues and hence, on its profitability. It should be noted that the Corporation owns two hydroelectric facilities drawing on two watersheds and one wind farm, which offers significant diversification in terms of operating revenue sources.

Investment in the Fund

The Corporation holds a substantial equity interest in the Fund. As a result, investors in the Corporation are subject to the risks that the Corporation will face as a significant unitholder of the Fund. The risks of being an investor in the Fund are described in the continuous disclosure documents of the Fund, which can be found at www.sedar.com. Such information is not incorporated by reference. Until additional Development Projects reach the commercial operation stage, the Corporation's ability to pay interest and other operating expenses and to meet its obligations will in part depend upon receipt of sufficient funds from its investment in the Fund. The likelihood that the Corporation will receive distributable cash from the Fund will be dependent upon the financial position and creditworthiness of the Fund. There is no guarantee that the Fund will continue to make cash distributions on a basis consistent with past practices.

Construction and Design

Delays and cost over-runs may occur in completing the construction of the Development Projects, the Prospective Projects and future projects that the Corporation will undertake. A number of factors that could cause such delays or cost over-runs include, but are not limited to, permitting delays, changing engineering and design requirements, the performance of contractors, labour disruptions, adverse weather conditions and financing availability. Even when complete, a facility may not operate as planned due to design or manufacturing flaws, which may not all be covered by warranty. Mechanical breakdown could occur in equipment after the period of warranty has expired, resulting in loss of production as well as the cost of repair even though the Corporation has put in place insurance coverage and reserve accounts to protect itself from production losses resulting from mechanical breakdown and costs of repair.

Development of New Facilities

The Corporation participates in the construction and development of new power generating facilities. These facilities have greater uncertainty surrounding future profitability than existing operating facilities with established track records. In certain cases many factors affecting costs are not yet determined, such as land royalty payments, water royalties, or municipal taxes. The Corporation is in some cases required to advance funds and post performance bonds in the course of development of its new facilities. In the event that certain of these power generating facilities are not completed or do not operate to the expected specifications, or unforeseen costs or taxes are incurred, the Corporation could be adversely affected.

Project Performance

The ability of the Corporation's facilities to generate the maximum amount of power which can be sold to Hydro-Québec, BC Hydro and the OPA or other purchasers of electricity under PPAs is an important determinant of the revenues of the Corporation. If one of the Corporation's facilities delivers less than the required quantity of electricity in a given contract year, penalty payments may be payable to the relevant purchaser by the Corporation. The payment of any such penalties by the Corporation could adversely affect the revenues and profitability of the Corporation.

Equipment Failure

The Corporation's facilities are subject to the risk of equipment failure due to deterioration of the asset from use or age, latent defect and design or operator error, among other things. To the extent that a facility's equipment requires longer than forecasted down times for maintenance and repair, or suffers disruptions of power generation for other reasons, the Corporation's business, operating results, financial condition or prospects could be adversely affected.

Interest Rate and Refinancing Risk

Interest rate fluctuations are of particular concern to a capital-intensive industry such as the electric power business. The Corporation faces interest rate and debt refinancing risk in respect of floating-rate bank credit facilities used for construction financing. The Corporation's ability to refinance debt on favourable terms is dependent on debt capital market conditions, which are inherently variable and difficult to predict.

Financial Leverage and Restrictive Covenants

The Corporation's operations are subject to contractual restrictions contained in the instruments governing any of its current and future indebtedness. The degree to which the Corporation is leveraged could have important consequences to shareholders including: (i) the Corporation's ability to obtain additional financing for working capital, capital expenditures, acquisitions or other project developments in the future may be limited; (ii) a significant portion of the Corporation's cash flow from operations may be dedicated to the payment of the principal and interest on its indebtedness, thereby reducing funds available for future operations; (iii) certain of the Corporation's borrowings will be at variable rates of interest, which exposes the Corporation to the risk of increased interest rates; and (iv) the Corporation may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures. The Corporation is subject to operating and financial restrictions through covenants in certain loan and security agreements. These restrictions prohibit or limit the Corporation's ability, and the ability of its subsidiaries, to, among other things incur additional debt, provide guarantee for indebtedness,

create liens, dispose of assets, liquidate, dissolve, amalgamate, consolidate or effect any corporate or capital reorganization, make distributions, issue any equity interests and create subsidiaries. These restrictions may limit the Corporation's ability to obtain additional financing, withstand downturns in the Corporation's business and take advantage of business opportunities. Moreover, the Corporation may be required to seek additional debt financing on terms that include increased interest rates, more restrictive covenants, require repayment on an accelerated schedule or impose other obligations that limit the Corporation's ability to grow the business, acquire needed assets or take other actions the Corporation might otherwise consider appropriate or desirable.

Separation Agreement

The Corporation is an undivided owner of a 38% interest in four wind projects. Furthermore, the Corporation indirectly owns, through its 16.1% investment in units of the Fund, a portion of the Fund's 38% interest in two wind farms. A third party is the other undivided owner of the remaining 62% interest in all of the six wind projects. The Corporation and the same third party have entered into a separation agreement which describes the process that will apply should one of the Corporation or the third party request separation of the wind projects held in undivided joint ownership. Once two of the projects have reached final completion, the separation agreement allows one of the undivided owners, within the 31st and the 60th day following the date of final completion of the second project (i.e., the Anse-à-Valleau wind farm), to request the separation of all of the wind projects so held in undivided joint ownership. The date of final completion of the AAV wind farm still has to be established. Should a request for separation be presented, the Fund will be allocated the wind farm that it holds in undivided joint ownership having the lowest fair market value, and the other will be attributed to the third party. The four remaining projects will be allocated between the Corporation and the third party, based on the total number of MW of these projects and their anticipated final completion dates. As such, each of the Corporation and the third party would then own 100% of some of the four projects, which would be close to their current respective overall interests in the four projects. In each case, the parties will then each have to pay an amount to compensate for the difference in value.

Relationship with Hydro-Québec

The Cartier Wind Project PPAs, including the PPA for the Les Méchins project PPA, provide for certain penalties that could become due upon the occurrence of an event of default thereunder, subject to certain amounts provided therein. Should such penalties become payable to Hydro-Québec, 38 % of such penalties would be borne by the Corporation.

ADDITIONAL INFORMATION AND UPDATES

Updated information on the Corporation is available through its regular press releases, quarterly financial statements, and Annual Information Form, which can be found on the Corporation's Web site at www.innergex.com, or on the SEDAR Web site at www.sedar.com.

QUARTERLY FINANCIAL INFORMATION

For the three-month periods ended (unaudited):

(in thousands, unless otherwise stated)	Dec. 31, 2008	Sep. 30, 2008	Jun. 30, 2008	Mar. 31, 2008
Revenues	\$ 811	\$ 1,660	\$ 2,424	\$ 971
Net (loss) earnings and comprehensive (loss) income	\$ (29,395)	\$ (613)	\$ 1,573	\$ (5,474)
Net (loss) earnings and comprehensive (loss) income per share				
Basic (\$ per share)	(1.25)	(0.03)	0.07	(0.23)
Diluted (\$ per share)	(1.25)	(0.03)	0.07	(0.23)
Weighted average number of shares outstanding				
Basic	23,500	23,500	23,500	23,500
Diluted	23,500	23,500	23,500	23,544

(in thousands, unless otherwise stated)	Dec. 31, 2007	Sep. 30, 2007	Jun. 30, 2007	Mar. 31, 2007
Revenues	\$ 3,067	\$ 1,478	\$ 1,714	\$ 1,791
Net earnings and comprehensive income	\$ 5,392	\$ 56	\$ 58	\$ 40
Net earnings and comprehensive income per share				
Basic (\$ per share)	0.67	0.03	0.03	0.03
Diluted (\$ per share)	0.67	0.03	0.03	0.03
Weighted average number of shares outstanding				
Basic	8,034	1,942	1,942	1,560
Diluted	8,135	1,942	1,942	1,560

FOURTH-QUARTER RESULTS

Operating Facilities

During the fourth quarter of 2008, the Glen Miller hydroelectric facility produced 13,036 MW-hr, a level 11% above the long-term average of 11,741 MW-hr, due to better hydrological conditions. From the date of its acquisition to the end of the year 2007 (26 days), the Glen Miller facility generated 2,530 MW-hr. The Umbata Falls hydroelectric facility production, starting from its first day of commercial operations on November 12, 2008 until the end of the year 2008 (50 days), reached 6,006 MW-hr, a level below the long-term average of 8,780 MW-hr due to usual start-up issues and to below-average hydrological conditions. The Carleton wind farm produced 16,270 MW-hr during the 40-day period beginning on the commercial operations start-up date of November 22, 2008, a level below the long-term average of 18,829 MW-hr due to usual start-up issues and to below-average wind conditions.

Corporation's 16.1% Interest in the Fund

The Fund's 10 hydroelectric facilities and two wind farms produced 220,299 MW-hr of power during the fourth quarter of 2008, 43% more than in the corresponding period of 2007 and 9% above the long-term average. This growth can mainly be explained by favourable hydrology and wind conditions and by the contribution of the BDS and AAV wind farms over a full quarter, compared to only 26 days in 2007.

Operating Results

Revenues from operating activities totalled \$2.7 million in the fourth quarter of 2008 compared to \$0.2 million during the last 26 days of 2007. This increase is the result of 35,312 MW-hr in total combined electricity production, compared to the 2,530 MW-hr generated from December 6, 2007 to the end of 2007. The contribution of the Glen Miller facility for a full quarter and the contribution of the Umbata Falls and Carleton facilities for periods of 50 days and 40 days, respectively, explain the

improvement in production levels. By comparison, the Corporation only benefited from the contribution of the Glen Miller hydroelectric facility's for the last 26 days of 2007

During the fourth quarter of 2008, the Corporation received \$0.6 million in management fees from the Fund. For the corresponding period in 2007, the Corporation received management fees from both the Fund and Innergex II totalling \$1.1 million. Given Innergex II is a wholly-owned subsidiary since December 6, 2007, the Corporation no longer treats management fees from this entity as revenues in its consolidated financial statements.

As a result of operating revenues and management fees, revenues before accounting for the Corporation's share of the Fund's net earnings or net loss totalled \$3.2 million during the last quarter, up from \$1.2 million for the corresponding period in 2007. However, the Corporation's share of the Fund's net loss during the last quarter of 2008 negatively impacted the Corporation's revenues by \$2.4 million, bringing total revenues for the quarter to \$0.8 million. For the same period in 2007, the Corporation's share of the Fund's net earnings had a positive impact of \$1.8 million, resulting in total revenues of \$3.1 million for the quarter. The Fund's \$13.8 million net loss in the fourth quarter of 2008 results from unrealized net losses on derivative financial instruments of \$19.5 million, which negatively affected the Fund's net earnings and therefore the Corporation's share. The Fund's net earnings, in the amount of \$8.7 million in the fourth quarter of 2007, included a \$6.7 million non-recurrent future income tax recovery, which positively affected the Fund's net earnings and thereby, the Corporation's share.

During the last quarter of 2008, the Corporation recorded \$0.2 million in operating expenses related to the operation of the Glen Miller hydroelectric facility over a full quarter and the Umbata Falls and Carleton facilities since November 2008. By comparison, operating expenses totalled \$0.05 million in the corresponding period of 2007, since the Glen Miller facility was included in the results for a period of only 26 days. Also for this period in 2008, non-cash stock-based expenses of \$0.4 million were recorded, up from \$0.1 million in corresponding period of 2007. The increase is due to amortization of the fair value of options granted on December 6, 2007 over three months, compared to 26 days in 2007.

General and administrative expenses totalled \$1.2 million during the period, a decrease of \$0.4 million over the fourth quarter of 2007. This reduction is explained by the fact that Innergex II is a wholly-owned subsidiary since December 6, 2007 and as such, the Corporation capitalizes part of its general and administrative expenses incurred in relation to project development.

The depreciation and amortization expense totalled \$0.9 million in the fourth quarter of 2008 compared to \$0.1 million for the corresponding period in 2007. This difference is mainly attributable to depreciation of the Glen Miller hydroelectric facility over a full quarter, compared to 26 days in 2007, and to depreciation of the Umbata Falls hydroelectric facility and of the Carleton wind farm starting in November 2008.

The Corporation incurred \$0.5 million in interest expenses on its long-term debt during the fourth quarter of 2008 (\$0.1 million in 2007). This increase is due to its higher indebtedness level stemming from the Umbata Falls and Carleton operating facilities, as well as to the recording of interest expense on long-term debt related to the Glen Miller facility for a full quarter, compared to 26 days in 2007.

During the fourth quarter of 2008, the Corporation recorded unrealized net losses on derivative financial instruments of \$14.9 million (unrealized gain of \$0.6 million in 2007). These unrealized losses, which resulted from changes in the fair market value of swap and bond forward contracts due to the overall decline in benchmark interest rates, had no cash impact on the Corporation's results. The Corporation also recorded a realized loss on a derivative financial instrument of \$2.4 million (nil in 2007) in relation to the conversion of bond forward contracts into an interest rate swap contract for the Carleton project. The realized loss on bond forward contracts is compensated by an 18.5-year interest rate swap contract, which has a lower-than-expected fixed interest rate, thus protecting the project's economic value.

For the quarter ended December 31, 2008, \$16.6 million in project development costs were impaired (\$0.1 million in 2007). The impairments recorded during the last quarter of 2008 are mainly related to the Mkw'Alts and Les Méchins projects.

The Corporation recorded an income tax recovery of \$10.5 million in the fourth quarter of 2008, which stemmed mainly from unrealized losses on derivative financial instruments and impairment of project development costs. For the corresponding period in 2007, an income tax expense of \$0.6 million was recorded partly due to the taxable distribution received from Innergex II prior to the IPO.

The net loss for this three-month period in 2008 therefore totalled \$29.4 million (net loss of \$1.25 per share), compared to net earnings of \$5.4 million (net earnings \$0.67 per share) for the corresponding period in 2007.

As at March 25, 2009, December 31, 2008 and December 31, 2007, the Corporation had 23,500,000 shares outstanding.

SUBSEQUENT EVENT

Umbata Falls Limited Partnership Financing Instruments

On January 28, 2009, Umbata Falls Limited Partnership terminated its bond forwards for a cash consideration of \$3,055,000 and an amount of \$1,660,000 was rolled into the interest rate swap. Concurrently, Umbata Falls Limited Partnership entered into an amortizing swap contract maturing in June 2034 allowing the payment of a fixed interest rate of 4.108%, effective on June 30, 2009.

Montagne-Sèche and Gros Morne I and II Wind Projects

In February 2009, the Bureau d'audiences publiques sur l'environnement (environmental public hearing office) released its report on the Montagne-Sèche and Gros Morne I and II wind projects following hearings held in September 2008. The Corporation is satisfied with the report's conclusions and is closely evaluating the recommended improvements to these projects.

Bank Loan

On February 27, 2009, the Corporation executed a restructured 364-day revolving credit facility, which provides for a maximum amount available of \$30.0 million, up from \$25.0 million previously.

Carleton Wind Farm

On February 27, 2009, the Corporation received payments for the commodity taxes from the government agencies and, accordingly, the GST/PST loan was reimbursed.

Ashlu Creek Project

On March 4, 2009, Ashlu Creek Investments Limited Partnership signed an agreement with the Federal government confirming that the project will receive incentive payments under the ecoENERGY Initiative, provided certain conditions are met and upon the start of commercial operations.

On March 16, 2009, one bond forward of an amount of \$25.0 million was renewed until June 16, 2009.

On March 17, 2009, six bond forwards contracts totalling \$85.0 million were renewed until March 31, 2009.

Kwoiek Creek Project

On March 18, 2009, the Kwoiek Creek project received its Environmental Assessment certificate from the province of British Columbia.

Fitzsimmons Creek Project

On March 24, 2009, the Corporation and a Lender executed a committed term sheet regarding the Fitzsimmons Creek Hydro LP project. Completion of this financing is subject to further syndication and is expected to close before the end of the second quarter of 2009.

Responsibility for Financial Reporting

The consolidated financial statements of Innergex Renewable Energy Inc. (the “Corporation”) accompanying this annual report and all of the information herein concerning the Corporation are the responsibility of Management.

These consolidated financial statements were prepared by Management in accordance with Canadian generally accepted accounting principles (“GAAP”) by applying the detailed accounting policies set out in the notes to the financial statements. Management is of the opinion that the consolidated financial statements were prepared based on reasonable and material criteria and using justifiable and reasonable estimates. The Corporation’s financial information, presented elsewhere in the annual report, is consistent with what is presented in the financial statements.

Management maintains efficient and high-quality internal accounting and management control systems while ensuring that costs are reasonable. These systems provide assurance that the financial information is relevant, accurate and reliable, and that the Corporation’s assets are correctly accounted for and adequately protected.

The Board of Directors of the Corporation is responsible for ensuring that Management fulfils its financial reporting responsibilities. In addition, the Board of Directors is ultimately responsible for reviewing and approving the Corporation’s consolidated financial statements. The Board of Directors fulfils this responsibility through its Audit Committee.

The Audit Committee is appointed by the Board of Directors and all of its members are external non-related Directors.

The Audit Committee meets with Management and the external auditors for the purposes of discussing internal controls relating to the financial reporting process, audit of financial information and other financial issues, and to make sure that each party is properly fulfilling its responsibilities. In addition, the Audit Committee reviews the annual report, the consolidated financial statements and the external auditors’ report. The Audit Committee submits its finding to the Board of Directors for review and for approval of the consolidated financial statements prior to their presentation to the shareholders. The Audit Committee also determines whether to retain the services of external auditors and to renew their mandate, which is subject to Board review and shareholders’ approval.

These financial statements were approved by the Corporation’s Board of Directors. The Corporation’s financial statements were audited by its external auditors, Samson Bélair / Deloitte & Touche s.e.n.c.r.l., in accordance with Canadian generally accepted auditing standards and on the shareholders’ behalf. Samson Bélair / Deloitte & Touche s.e.n.c.r.l. enjoy full and unrestricted access to the Audit Committee.

[s] Michel Letellier
Michel Letellier, MBA
President
and Chief Executive Officer

[s] Jean Perron
Jean Perron, CA, CMA
Vice President
and Chief Financial Officer

Innergex Renewable Energy Inc.

Longueuil, Canada, March 25, 2009

Auditors' Report

To the Shareholders of
Innergex Renewable Energy Inc.

We have audited the consolidated balance sheets of Innergex Renewable Energy Inc. (the "Corporation") as at December 31, 2008 and 2007 and the consolidated statements of earnings, comprehensive income, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

SAMSON BÉLAIR / Deloitte & Touche s.e.n.c.r.l.¹

Montreal, Québec
March 24, 2009

¹ Chartered Accountants auditor permit n° 15462

INNERGEX RENEWABLE ENERGY INC.

Consolidated Statements of Earnings

	For the year ended December 31, 2008	For the year ended December 31, 2007
	\$	\$
Revenues		
Operating	4,902,132	168,673
Management fees	2,335,262	6,056,815
Share of net (loss) earnings of an entity subject to significant influence (Note 9)	(1,370,859)	1,823,354
	5,866,535	8,048,842
Expenses		
Operating expenses	613,974	50,076
Stock-based compensation (Note 17)	1,563,627	130,302
General and administrative expenses	5,064,608	6,183,672
	7,242,209	6,364,050
(Loss) earnings before interests, income taxes, depreciation and amortization and other items	(1,375,674)	1,684,792
Depreciation and amortization	1,848,547	306,295
Interest on long-term debt	1,140,556	99,922
Realized loss on derivative financial instrument (Note 22 (b))	2,410,000	-
Unrealized net loss (gain) on derivative financial instruments (Note 13)	17,665,163	(574,798)
Other (revenues) and expenses	(647,075)	(73,666)
Impairment of project development costs (Notes 8, 20)	18,250,216	65,087
Impairment of goodwill (Note 10)	3,604,865	-
(Loss) earnings before unusual income, income taxes and minority interests	(45,647,946)	1,861,952
Unusual income:		
Distribution from a trust under common management (Note 4b)	-	4,330,478
(Loss) earnings before income taxes and minority interests	(45,647,946)	6,192,430
Income taxes (Note 16)		
(Recovered) Current	(7,797)	319,697
Future	(11,720,332)	326,357
	(11,728,129)	646,054
Net (loss) earnings before minority interests	(33,919,817)	5,546,376
Losses allocated to minority interests	10,500	-
Net (loss) earnings	(33,909,317)	5,546,376
Weighted average number of shares outstanding	23,500,000	3,383,477
Basic net (loss) earnings per share	(1.44)	1.64
Diluted number of shares outstanding	23,500,000	3,384,096
Diluted net (loss) earnings per share	(1.44)	1.64

The accompanying notes are an integral part of these consolidated financial statements.

INNERGEX RENEWABLE ENERGY INC.

Consolidated Statements of Comprehensive Income and Deficit

Consolidated statements of Comprehensive income	For the year ended December 31, 2008	For the year ended December 31, 2007
	\$	\$
Net (loss) earnings	(33,909,317)	5,546,376
Other items of comprehensive income		
Unrealized foreign exchange gain on a self-sustaining foreign subsidiary of the investment in an entity subject to significant influence	115,009	-
Unrealized foreign exchange loss on the designated portion of the debt used as hedge on the investment in a self-sustaining foreign subsidiary of the investment in an entity subject to significant influence	(113,788)	-
	1,221	-
Comprehensive (loss) income	(33,908,096)	5,546,376

Consolidated statements of Deficit	For the year ended December 31, 2008	For the year ended December 31, 2007
	\$	\$
Retained earnings, beginning of year	1,593,334	1,802,835
Net (loss) earnings	(33,909,317)	5,546,376
Dividends declared	-	(6,029,287)
Refund of refundable dividend tax on hand (Note 19)	-	273,410
(Deficit) retained earnings, end of year	(32,315,983)	1,593,334
Cumulative other comprehensive income - beginning of year	-	-
Other items of comprehensive income	1,221	-
Cumulative other comprehensive income - end of year	1,221	-
Total (deficit) retained earnings and cumulative other comprehensive income	(32,314,762)	1,593,334

The accompanying notes are an integral part of these consolidated financial statements.

INNERGEX RENEWABLE ENERGY INC.

Consolidated Balance Sheets

	December 31, 2008	December 31, 2007
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	5,957,780	34,690,837
Accounts receivable (Note 5)	22,891,011	19,576,093
Prepaid and others	1,242,318	328,756
	30,091,109	54,595,686
Property, plant and equipment (Note 6)	229,527,304	111,423,328
Intangible assets (Note 7)	44,376,880	40,832,760
Project development costs (Note 8)	30,993,945	37,335,586
Investment in an entity subject to significant influence (Note 9)	57,052,056	63,144,213
Future income taxes (Note 16)	10,522,080	3,214,616
Goodwill (Notes 4, 10)	31,216,790	30,552,578
Other long-term assets	1,268,236	2,160,740
	435,048,400	343,259,507
Liabilities		
Current liabilities		
Bank loan (Note 11)	9,750,000	2,000,000
Accounts payable and accrued liabilities (Note 12)	12,019,239	14,824,342
Derivative financial instruments (Note 13)	20,411,968	3,501,225
Current portion of long-term debt (Note 14)	15,993,983	-
	58,175,190	20,325,567
Construction holdbacks	5,057,542	1,989,626
Derivative financial instruments (Note 13)	2,311,110	1,455,974
Accrual for acquisition of long-term assets (Note 14 (f))	14,120,894	-
Long-term debt (Note 14)	149,514,434	81,135,000
Asset retirement obligations (Note 15)	453,452	-
Future income taxes (Note 16)	4,931,377	7,816,862
Minority interests	1,457,891	5,000
	236,021,890	112,728,029
Shareholders' equity		
Share capital (Note 17)	229,472,343	228,807,842
Contributed surplus (Note 17)	1,693,929	130,302
Warrants (Note 18)	175,000	-
Total (deficit) retained earnings and cumulative other comprehensive income	(32,314,762)	1,593,334
Commitments and guarantee (Note 23)		
	199,026,510	230,531,478
	435,048,400	343,259,507

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board

[S] *Gilles Lefrançois*
Gilles Lefrançois, CA
Executive Chairman of the Board of Directors

[S] *Michel Letellier*
Michel Letellier, MBA
Director

INNERGEX RENEWABLE ENERGY INC.

Consolidated Statements of Cash Flows

	For the year ended December 31, 2008 \$	For the year ended December 31, 2007 \$
Operating activities		
Net (loss) earnings	(33,909,317)	5,546,376
Items not affecting cash:		
Depreciation of property, plant and equipment	1,420,858	282,172
Amortization of intangible assets	427,689	24,123
Share of net loss (earnings) of an entity subject to significant influence	1,370,859	(1,823,354)
Stock-based compensation	1,563,627	130,302
Unrealized net loss (gain) on derivative financial instruments	17,665,163	(574,798)
Impairment of project development costs	18,250,216	65,087
Impairment of goodwill	3,604,865	-
Future income taxes	(11,720,332)	326,357
Other items	13,359	6,747
Changes in non-cash operating working capital items (Note 20)	(10,238,103)	2,313,252
	(11,551,116)	6,296,264
Financing activities		
Increase in bank loan	7,750,000	-
Issuance of long-term debt	86,311,000	441,000
Repayment of long-term debt	(772,916)	(124,125,000)
Issuance of share capital (Note 17)	-	237,140,413
Redemption of share capital (Note 17)	-	(1)
Issuance costs of shares (Note 17)	959,153	(12,037,763)
Issuance costs of debt	(1,184,407)	-
Dividends paid	-	(6,029,287)
Issuance of warrants (Note 18)	175,000	-
Refund of refundable tax on hand (Note 19)	-	273,410
	93,237,830	95,662,772

INNERGEX RENEWABLE ENERGY INC.

Consolidated Statements of Cash Flows

	For the year ended December 31, 2008 \$	For the year ended December 31, 2007 \$
Investing activities		
Decrease in distribution receivable from a trust under common management	-	2,050,335
Business acquisitions, net of cash acquired (Note 4)	(8,674,274)	(64,128,555)
Additions to property, plant and equipment	(97,913,350)	(4,971,680)
Additions to intangible assets	(2,012,282)	-
Additions to project development costs	(6,445,445)	(646,712)
Distributions received from an entity subject to significant influence	4,708,899	-
Additions to other long-term assets	(83,319)	(95,094)
	(110,419,771)	(67,791,706)
Net (decrease) increase in cash and cash equivalents	(28,733,057)	34,167,330
Cash and cash equivalents, beginning of year	34,690,837	523,507
Cash and cash equivalents, end of year	5,957,780	34,690,837
<i>Cash and cash equivalents is comprised of:</i>		
Cash	3,008,606	2,020,045
Short-term investments	2,949,174	32,670,792
	5,957,780	34,690,837

Additional information is presented in Note 20.

The accompanying notes are an integral part of these consolidated financial statements.

INNERGEX RENEWABLE ENERGY INC.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

1. Description of business

Innergex Renewable Energy Inc. (the “Corporation”) was incorporated under the Canada Business Corporation Act on October 25, 2002. The Corporation solely provided management and administrative services up to its initial public offering on December 6, 2007. Since then, the Corporation is an independent developer, owner and operator of renewable power-generating facilities, essentially focused on the hydroelectric and wind power sectors. On October 25, 2007, the Corporation changed its name from Innergex Management Inc. to Innergex Renewable Energy Inc.

2. Significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries as well as those of the variable interest entity for which the Corporation is the primary beneficiary and the accounts of joint ventures to the extent of the Corporation’s proportional interest in their respective assets, liabilities, revenues and expenses. Investments over which the Corporation is able to exercise significant influence are accounted for by the equity method. All intercompany balances and transactions have been eliminated.

Consolidation of variable interest entities

Accounting Guideline 15 (“AcG-15”), *Consolidation of Variable Interest Entities* (“VIEs”) outlines consolidation principles for VIEs. VIEs are entities in which equity investors do not have controlling financial interest or the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by any parties, including equity holders. AcG-15 requires the consolidation of a VIE by its primary beneficiary (i.e. the party that receives the majority of the expected residual returns and/or absorbs the majority of the entity’s losses). In accordance with AcG-15, the Corporation is considered the primary beneficiary for one of its 50 % investment in a joint venture and accordingly, it was consolidated.

Liquidity :

The Corporation’s working capital deficiency amounts to \$28,084,081 as of December 31, 2008. The deficiency is mainly due to (i) the bank loan of \$9,750,000 and (ii) to \$20,411,968 of hedging derivative financial instruments used by Ashlu Creek LP, a subsidiary of the Corporation, to protect the Ashlu project from interest rate risks movements.

Subsequent to year-end, as discussed in Note 28(c), the bank loan was renewed until February 26, 2010 and need not to be repaid prior to that date.

Unless benchmark interest rates increase to revert to more favourable conditions in which case the negative value of the hedges would reduce, failure to extend the maturity of the hedging contracts or in obtaining new financing could result in a shortfall of liquidities. The subsidiary could then become in default under its financing agreement. The subsidiary’s financing agreement and hedging contracts are non-recourse to the Corporation and can be exercise solely upon the assets and guarantees of the subsidiary. To the extend the Corporation or the subsidiary are unable to remedy the situation, the subsidiary could be in a position where it could not repay the financial obligation under the hedging program upon maturity. This would impair the Corporation investment in the subsidiary but not the other assets of the Corporation.

INNERGEX RENEWABLE ENERGY INC.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

In the past, the Corporation and its subsidiaries have been able to extend/renew their hedging derivative financial instruments or obtain outside financing to meet their capital requirements with the anticipation that once their projects are complete and operational, they contribute to future liquidity needs. Management's ongoing plan with respect to the significant uncertainty described above is to (i) continue discussions with the subsidiary's lenders to extend the maturity of the hedging contracts until the in-service date of the Ashlu project expected in November of 2009, in the unlikely event that management is unable to come to an agreement with its lenders, management could take the following actions (ii) seek additional financing to repay the hedging contracts (iii) consider issuance of additional securities by the subsidiary or the Corporation or (iv) monetize other assets of the Corporation.

In the current economic environment, while financial institutions continue to lend, they are much more cautious and certain terms and conditions could result in credit becoming more onerous or simply unavailable for the pursuit of the Corporation's development or prospective projects. If the Corporation is unable to conclude project financing in a timely manner and on commercially acceptable terms, construction of additional development projects or prospective projects could be postponed. The Corporation's present operating and construction activities are financed using long-term non-recourse project financings provided by strong relationship banks. As of March 24, 2009, only the Fitzsimmons Creek financing needs to be obtained in order for the Corporation to have fulfilled all of its financing needs for projects under construction. The Corporation has therefore executed a committed term sheet for the Fitzsimmons Creek financing in March 2009 with a Canadian financial institution. Following the usual syndication process, the Corporation expects to finalize this financing by the end of the second quarter of 2009.

Accordingly, the Corporation concluded that there is no substantial doubt about its ability to continue as a going concern, and its financial statements have been prepared on a going concern basis.

Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments with original maturities of three months or less.

Government assistance

Government assistance in the form of a refundable investment tax credit is recorded in the financial statements when there is reasonable assurance that the Corporation complied with all conditions necessary to obtain the assistance.

The Corporation incurs renewable energy development expenditures, which are eligible for investment tax credits. The recorded investment taxes credits are based on management's estimates of amounts expected to be recovered and are subject to an audit by the taxation authorities.

Government assistance, including investment tax credits for renewable energy development expenditures, is reflected as a reduction in the cost of the assets or expenses to which it relates.

INNERGEX RENEWABLE ENERGY INC.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

Property, plant and equipment

Property, plant and equipment, comprised mainly of hydroelectric and wind farm facilities, are recorded at cost. Financing costs related to the construction of property, plant and equipment and revenues derived prior to commercial operation are capitalized when incurred. Depreciation of hydroelectric power generating facilities is based on the estimated useful lives of the assets using the straight-line method over the lesser of a period of 50 years or the period for which the Corporation owns the rights to the assets. Depreciation of wind farm facilities is based on the estimated useful lives of the assets using the straight-line method over a period of 25 years. Improvements that increase or extend the service life or capacity of an asset are capitalized. Other equipments are depreciated using the declining balance method at annual rates ranging from 20 % to 33 %. Maintenance and repair costs are expensed as incurred. Property, plant and equipment are not depreciated until their commissioning date.

Type of property, plant and equipment	Ending years of depreciation period	Useful life for the depreciation period
Hydroelectric facilities	2033 to 2035	25 to 27 years
Wind farm facilities	2033	25 years

Intangible assets

Intangible assets consist of various permits, licences and agreements. They are recorded at cost and amortization starts when the related facility becomes commercially operational. They are amortized using the straight-line method over a period of 20 to 25 years ending on the maturity date of the permits, licences or agreements of each facility. Intangible assets are related to four categories, being hydroelectric facilities, hydroelectric facilities under construction wind farm facilities and wind farm facilities under construction. Intangible assets related to facilities under construction are not amortized until the commissioning date of the related facilities. Intangible assets also include the cost of an extended warranty for wind farm equipments; these costs will be amortized over the three-year warranty period.

Intangible assets related to :	Ending years of amortization period	Useful life for the amortization period
Hydroelectric facilities	2025 to 2033	17 to 25 years
Wind farm facilities	2028	20 years
Extended warranty	2013	3 years

Project development costs

Project development costs represent costs incurred in the investigation, acquisition and development of hydroelectric and wind farm sites. The costs are transferred to property, plant and equipment or intangible assets when a hydroelectric or wind farm site becomes in construction. Interest costs incurred to finance the investigation, acquisition and development are capitalized as project development costs. Costs of an unsuccessful project are written off in the year the project is abandoned.

Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposal. The amount of the impairment loss is determined as the excess of the carrying amount of the asset over its fair value.

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Investment in an entity subject to significant influence

Investment in Innergex Power Income Fund over which the Corporation exercises a significant influence under accounting rules (but does not control) is accounted for using the equity method whereby the investment is initially recorded at cost and subsequently adjusted to recognize the Corporation's share of earnings or losses of the investee and reduced by distributions received. The excess of the cost of equity investments over the underlying book value at the date of acquisition, except for goodwill, is amortized over the estimated useful lives of the underlying assets to which it is attributed.

Goodwill

Goodwill represents the excess of purchase price over fair value of the net identifiable assets of acquired businesses. Goodwill is not amortized but is tested for impairment annually or more frequently when an event or circumstance occurs that indicates that goodwill might be impaired. When the carrying amount exceeds the fair value, an impairment loss is recognized in the statement of earnings in an amount equal to the excess. Goodwill is related to businesses acquired and allocated between groups of assets. If an asset is transferred between segments, the related goodwill is also transferred.

Asset retirement obligations

The Corporation recognizes a liability for an asset retirement obligation arising from acquisitions, construction or development or in the normal course of business. An asset retirement liability is initially recognized at its fair value during the year in which the Corporation incurs a legal asset retirement obligation and when a reasonable estimate of the fair value can be made. The corresponding cost is capitalized as part of the related asset and amortized over the asset's estimated useful life. In subsequent years, this liability is adjusted for changes resulting from the passage of time and for revisions to the timing or amount of the original estimate of the undiscounted future cash flows. Any increase in the liability fair value resulting from the passage of time is charged to earnings.

Revenue recognition

The Corporation recognizes revenue when persuasive evidence of an arrangement exists, service has been rendered, the price to the buyer is fixed or determinable and collection is reasonably assured. Operating revenues come from electricity production sold to publicly owned utilities. Management fees are earned from services rendered as the manager of Innergex Power Income Fund and prior to December 6, 2007 from Innergex II Income Fund for supervision, assistance and administration in developing, building and operating facilities. Share of net loss or earnings of an entity subject to significant influence comes from recording the Corporation's 16.1 % share of the net loss or earnings of Innergex Power Income Fund.

Derivative financial instruments

Derivative financial instruments held for trading or speculative purposes or that are not eligible for hedge accounting are recognized on the balance sheet at their fair value, with changes in fair value recognized in net earnings.

Stock-based compensation

The Corporation uses the fair value method to measure compensation expense at the date of grant of stock options to employees. The fair value of options is determined using the Black-Scholes option pricing model and is amortized to earnings over the vesting period with an offset to contributed surplus. For options that are forfeited before vesting, the compensation expense that had previously been recognized in operating expenses and contributed surplus is reversed. When options are exercised, the corresponding contributed surplus and the proceeds received by the Corporation are credited to capital stock.

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Foreign currency translation

Transactions in foreign currencies are translated into Canadian dollars at rates in effect at the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at exchange rates then prevailing. The resulting translation gains or losses are recognized in the determination of net earnings.

Income taxes

The Corporation follows the liability method of accounting for income taxes. Under this method, future income taxes assets and liabilities are recognized based on the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax bases, using the enacted and substantively enacted income tax rates for the years in which the differences are expected to reverse. Future income tax assets are recognized to the extent it is more likely than not they will be realized.

Earnings per share

Basic earnings per share are computed by dividing net earnings by the weighted average number of shares outstanding during the year. The Corporation uses the treasury stock method for calculating diluted earnings per share. Diluted earnings per share are computed similarly to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and / or warrants were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the year. All shares and per share amounts presented herein have been adjusted to reflect the subdivision of shares for all periods presented.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Significant areas requiring the use of management's estimates relate to valuation of assets acquired and liabilities assumed in business acquisitions, impairment of assets, useful lives for depreciation and amortization, asset retirement obligations and future income taxes.

3. Changes in accounting policies

a) New standards adopted in 2008 :

- i) The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, *Capital Disclosures*. This Section describes the information that enables users of its financial statements to evaluate its objectives, policies and processes for managing capital. This Section applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2007. The application of this section requires additional disclosures that are presented in Note 24.
- ii) CICA Handbook Section 3031, *Inventories*, establishes practices for the measurement and disclosure of inventories. Application of these practices didn't require any adjustments of the retained earnings' opening balance but required a reclassification from the other short-term assets

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to the property, plant and equipment for an amount of \$ 31,310. Annual charge of depreciation will be increased by \$ 1,122.

b) New standards adopted in 2007:

The Canadian Institute of Chartered Accountants has issued the following new accounting standards, which came into effect on January 1, 2007 for the Corporation. The Corporation reviewed all its material contracts since January 1, 2004. The adoption of these new standards had no impact on the Corporation's consolidated financial statements.

- i) CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. This Section describes the standards for recognizing and measuring financial instruments in the balance sheet and the standards for reporting gains and losses in the financial statements. Under the new standard, financial assets and liabilities are initially recorded at fair value. Subsequently, financial instruments classified as financial assets available for sale, held for trading and derivative financial instruments, part of a hedging relationship or not, have to be measured at fair value on the balance sheet at each reporting date, whereas other financial instruments are measured at amortized cost using the effective interest method.

Transaction costs related to held for trading financial assets are expensed as incurred. Transaction costs related to available-for-sale financial assets, held-to-maturity financial assets, other liabilities and loans and receivables are added to the carrying value of the asset or are netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the effective interest method.

The Corporation has made the following classification:

- Cash and cash equivalents and funds held in reserve, which are included in other long-term assets, are designated as assets or liabilities held for trading. The accounting value of the assets or liabilities designated as held for trading is \$ 6,410,808 (\$ 35,038,202 in 2007). Financial derivatives are classified as held for trading in accordance with Section 3855. The net accounting value of these assets or liabilities classified as held for trading is negative \$ 21,958,870 (negative \$ 4,293,707 in 2007). These items are measured at fair value; gains or losses arising from the revaluation at the end of each period are recorded in consolidated net earnings.

Investment income earned on assets or liabilities designated as held for trading amounted to \$ 667,642 (\$ 106,212 in 2007) and is included in other revenues and expenses in the statement of earnings.

Net gains or losses on assets or liabilities classified as held for trading in accordance with Section 3855 amount to losses of \$ 20,075,163 (gains of \$ 574,798 in 2007) and are included into (loss) gain on derivative financial instruments in the statement of earnings. These net gains or losses do not include any investment income.

- Accounts receivable and distribution receivable and loan to third party, are classified as loans and receivables and are measured at amortized cost.
- Bank loan, accounts payable and accrued liabilities, construction holdbacks and long-term debt are classified as other financial liabilities. They were initially measured at fair value and are now recorded at amortized cost.

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- ii) CICA Handbook Section 1530, *Comprehensive Income*. This Section describes reporting and disclosure recommendations with respect to comprehensive income and its components. Comprehensive income is the change in shareholders' equity, which results from transactions other than those resulting from investments by shareholders and dividends to shareholders. These transactions and events include unrealized gains and losses resulting from changes in fair value of certain financial instruments. The Corporation's share of the other items of comprehensive income of its investment into Innergex Power Income Fund are included therein.
 - iii) CICA Handbook Section 3865, *Hedges*. This Section describes when and how hedge accounting can be applied, as well as disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from the derivative financial instruments in the same period as for those related to the hedged item. The Corporation did not designate any of its financial instruments, for accounting purposes, as hedges.
 - iv) CICA Handbook Section 3862, *Financial Instruments – Disclosures*, establishes disclosure standards for financial instruments, including information concerning fair value and related credit, liquidity and market risks. Section 3863 *Financial Instruments – Presentation* establishes standards for the presentation of financial instruments and non-financial derivatives. The application of these Sections required additional disclosures that are presented in Note 22.
- c) Future accounting changes:
- i) CICA Handbook Section 3064, *Goodwill and Intangible Assets*, replaces Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs*. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section, issued in February 2008, will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Corporation will adopt the new standard for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Corporation's activities include pre-development costs that are capitalized into the costs of new projects. Starting January 1, 2009, these costs will be expensed as incurred. The application of this new standard is retroactive and will require the Corporation to expense pre-development costs previously capitalized. The Corporation is currently assessing the future impact of this new standard on its consolidated financial statements.
 - ii) CICA Handbook, EIC-173, *Credit risk and the Fair Value of Financial Assets and Financial Liabilities* states that the credit risk of counterparties should be taken into account in determining the fair value of derivative financial instruments. The Corporation has already considered the effect of EIC-173 in measuring its derivative financial instruments for the year ended December 31, 2008. The Corporation does not foresee that the application of EIC-173 will have an impact on its consolidated financial statements in 2009.
 - iii) CICA Handbook Section 1582, *Business Combinations*. This new Section will be applicable to business combinations for which the acquisition date is on or after the Corporation's interim and fiscal year beginning January 1, 2011. Early adoption is permitted. This section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects.

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- iv) CICA Handbook Section 1601, *Consolidated financial statements*. This new Section will be applicable to financial statements relating to the Corporation's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for the preparation of consolidated financial statements. The Corporation has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.
- v) CICA Handbook Section 1602, *Non-Controlling interests*. This new Section will be applicable to financial statements relating to the Corporation's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Corporation has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

d) International Financial Reporting Standards:

The Canadian Accounting Standards Board has announced the adoption of International Financial Reporting Standards ("IFRS") for publicly accountable enterprises in Canada. Effective January 1, 2011, companies must convert from Canadian GAAP to IFRS. Accordingly, the Corporation will adopt IFRS effective in the quarter ending March 31st, 2011. The Corporation has begun to develop plans to implement the new standards. A calendar of all steps to be followed by the Corporation has been established in order to meet the conversion date. The Corporation cannot at this time reasonably estimate the impact on its consolidated financial statements of adopting IFRS.

4. Business acquisitions

a) Creek Power Inc.

On August 29, 2008, the Corporation completed the acquisition of a 66⅔ % interest in Creek Power Inc., for a cash consideration of \$ 8,675,000 including acquisition costs of \$ 500,000. Creek Power Inc. owns certain rights relating to 18 prospective hydroelectric projects representing a potential aggregate of 200 MW of installed capacity located in the Lower Mainland of British Columbia. The remaining 33⅓ % interest in Creek Power Inc. is still held by Ledcor Power Group Ltd. The acquisition was accounted for using the purchase method on August 29, 2008. The earnings and comprehensive income of Creek Power Inc. have been consolidated with the Corporation's results since the date of acquisition. The total purchase price preliminary allocation was made as follows:

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	\$
Cash and cash equivalents	726
Net working capital	(409,811)
Property, plant and equipment	2,232,730
Intangible assets	1,738,333
Project development costs	3,878,590
Goodwill	2,812,592
	10,253,160
Future income taxes	(114,769)
	10,138,391
Minority interest	(1,463,391)
Net assets acquired	8,675,000
Additional Information	
Unpaid project development costs acquired	257,731
Unpaid property, plant and equipment acquired	155,032

The purchase price allocated to goodwill has no tax base and is related to the development of sites.

b) Innergex II Income Fund

Pursuant to its initial public offering on December 6, 2007, the Corporation issued 10,455,000 common shares at a price of \$ 11.00 per share for net proceeds totaling \$ 102,967,237 after deducting underwriters' fees of \$ 6,037,763 and expenses related to the offering of \$ 6,000,000. Concurrently with the closing of the offering, Institutional Investors subscribed by way of a private placement for an additional 5,342,620 common shares of the Corporation at the offering price hereunder for an aggregate amount of \$ 58,768,822.

The Corporation used the net proceeds and the proceeds from the private placement to complete the following transactions:

	\$
Repayment or purchase of promissory notes owed by Innergex II Income Fund	123,875,000
Funding of equity in projects under development	30,000,000
Dividends to shareholders of the Corporation	3,781,079
Working capital and general corporate purposes	4,079,980
	161,736,059

Immediately before the acquisition, the Corporation held 13,235 units of Innergex II Income Fund, accounted at cost, for \$ 13,235 and received a distribution on those units for an amount of \$ 4,330,478.

At the closing of the offering, the Corporation acquired from the Institutional Investors their equity interests in Innergex II Income Fund, which represent 85 % of the outstanding units. Innergex II Income Fund is now wholly owned by the Corporation. The acquisition price of \$ 63,364,165 was paid to the Institutional Investors by the issue of 5,760,379 common shares at the offering price.

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The acquisition of Innergex II Income Fund has been accounted for using the purchase method at its respective acquisition cost on December 6, 2007. The earnings and comprehensive income of Innergex II Income Fund have been consolidated with the Corporation's results since the date of acquisition.

In 2008, the purchase price allocation of Innergex II Income Fund was modified. The Corporation reviewed the allocation and made some adjustments. Net working capital decreased by \$ 1,137,621 following a reduction in, non-interest bearing demand notes receivable from subsidiaries of Innergex Power Income Fund, an entity subject to significant influence to \$ 12,870,946. Property, plant and equipment, goodwill and future income tax liabilities increased by \$ 641,016, \$ 1,456,485 and \$ 959,880, respectively.

	December 6, 2007 preliminary allocation price	2008 adjustments	Revised allocation price
	\$	\$	\$
Cash and cash equivalents	(764,390)	-	(764,390)
Net working capital	1,936,223	(1,137,621)	798,602
Property, plant and equipment	107,212,085	641,016	107,853,101
Intangible assets	40,856,883	-	40,856,883
Project development costs	36,586,610	-	36,586,610
Investment in an entity subject to significant influence	61,700,782	-	61,700,782
Goodwill	30,552,578	1,456,485	32,009,063
Other long-term assets	2,402,584	-	2,402,584
	280,483,355	959,880	281,443,235
Construction holdbacks	(3,015,097)	-	(3,015,097)
Derivative financial instruments	(1,514,638)	-	(1,514,638)
Long-term debt	(204,569,000)	-	(204,569,000)
Future income taxes	(8,002,220)	(959,880)	(8,962,100)
	(217,100,955)	(959,880)	(218,060,835)
Minority interest	(5,000)	-	(5,000)
Elimination of the 15 % investment held in Innergex II Income Fund upon consolidation of wholly owned subsidiary	(13,235)	-	(13,235)
Net assets acquired	63,364,165	-	63,364,165
<i>Additional information</i>			
Unpaid property, plant and equipment acquired			10,207,659
Unpaid project development costs acquired			497,496
Unpaid assets acquired			10,705,155

The purchase price allocated to goodwill has no tax base and is related to the development of sites.

The net working capital included non-interest bearing demand notes of \$12,870,946 receivable from subsidiaries of Innergex Power Income Fund. These notes were paid during the second and third quarter of 2008.

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5. Accounts receivable

	December 31, 2008	December 31, 2007
	\$	\$
Trade	4,135,923	493,329
Payment receivable for property, plant and equipment	8,801,534	-
Commodity taxes	6,919,660	1,330,145
Receivables from an entity subject to significant influence	1,206,498	1,782,480
Receivables from related parties	50,061	-
Investment tax credits	429,431	1,743,142
Notes receivable from an entity subject to significant influence, without interest	-	14,008,567
Others	1,347,904	218,430
	22,891,011	19,576,093

Substantially all of the trade receivables are from Hydro-Quebec and Ontario Power Authority. Hydro-Quebec currently holds a credit rating of A+ from Standards & Poors (S&P). The Ministry of Energy of the Province of Ontario has stated that the Province of Ontario, which currently holds a credit rating of AA from S&P, will honor Ontario Power Authority obligations under the Purchase Power Agreements to which it is a party.

The payment receivable for property, plant and equipment is also receivable from Hydro-Quebec and is related to the Carleton wind farm. Commodity taxes and investment tax credits are receivable from the federal or provincial governments, following the development and construction of projects. An amount of \$ 5,908,632 of the commodity taxes is related to the Carleton wind farm. See Notes 14 (c) and 28 (d) for more details.

Receivables from an entity subject to significant influence are from subsidiaries of Innergex Power Income Fund in which the Corporation owns a 16.1 % interest.

The Corporation didn't record any allowance for doubtful accounts since, based on its experience, there is a low risk of doubtful accounts. The Corporation doesn't hold any specific guarantees for its accounts receivable.

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Notes to the Consolidated Financial Statements

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6. Property, plant and equipment

			December 31, 2008	December 31, 2007
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
	\$	\$	\$	\$
Hydroelectric facilities	52,633,511	902,535	51,730,976	18,763,440
Wind farm facility	67,723,021	290,230	67,432,791	-
Hydroelectric facilities under construction	109,850,884	-	109,850,884	81,941,014
Wind farm facility under construction	-	-	-	10,139,750
Other equipments	1,428,228	915,575	512,653	579,124
	231,635,644	2,108,340	229,527,304	111,423,328

Property, plant and equipment include financing costs of \$ 3,541,713 (\$ 322,824 in 2007).

7. Intangible assets

The Corporation's intangible assets are related to:

			December 31, 2008	December 31, 2007
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Hydroelectric facilities	9,436,713	387,640	9,049,073	6,195,914
Wind farm facility	13,611,026	64,172	13,546,854	-
Hydroelectric facilities under construction	21,780,953	-	21,780,953	23,085,598
Wind farm facility under construction	-	-	-	11,551,248
	44,828,692	451,812	44,376,880	40,832,760

8. Project development costs

	December 31, 2008	December 31, 2007
	\$	\$
Projects under development	21,691,389	21,829,859
Intangibles related to projects under development	9,302,556	15,505,727
	30,993,945	37,335,586

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For the year ended December 31, 2008

During the year, the Corporation abandoned some projects due to the impossibility to develop them, while other projects faced delays. This resulted in an impairment of some projects in the development and management of sites segment.

The Corporation benefited from refundable investment tax credit in an amount of \$ 715,641 (\$ 45,809 in 2007) that reduced the project development costs.

9. Investment in an entity subject to significant influence

On December 6, 2007, the Corporation acquired 4,724,409 units representing 16.1 % of the units issued by Innergex Power Income Fund. The Corporation provides management and administration services to Innergex Power Income Fund as described in Note 21 and is represented on its Board of Trustees.

The equity interest acquired in Innergex Power Income Fund represents an investment subject to significant influence, under accounting rules, which is accounted for using the equity method from the date of the transaction, December 6, 2007. The investment was initially recorded at cost, and subsequently adjusted to recognize the Corporation's share of earnings or losses of the investee and reduced by distributions declared by the investee. The Corporation's share of Innergex Power Income Fund's net earnings or loss is adjusted to reflect the amortization of the fair value adjustments related to the fair value of the Corporation's share of the net identifiable asset, except for goodwill, of Innergex Power Income Fund acquired.

The total cost is allocated to the Corporation's share of net identifiable assets acquired on the basis of their fair values, using the purchase method of accounting.

The allocation of the excess cost of the investment in Innergex Power Income Fund over the underlying net book value of assets acquired amounted to \$ 26,186,227 as at December 6, 2007, consisting mainly of the intangible assets of \$ 23,464,266, future income tax liabilities of \$ 7,273,922 and incremental goodwill of \$ 9,995,883.

The investment in Innergex Power Income Fund is detailed as follows:

	December 31, 2008	December 31, 2007
	\$	\$
Opening balance	63,144,213	-
Innergex Power Income Fund at cost	-	61,700,782
Share of net (loss) earnings	(1,370,859)	1,823,354
Share of other items of comprehensive income	1,221	-
Distributions declared by Innergex Power Income Fund	(4,722,519)	(379,923)
Ending balance	57,052,056	63,144,213

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For the year ended December 31, 2008

The Corporation's share in the results of Innergex Power Income Fund for the year ended December 31, 2008 amounted to a loss of \$ 1,370,859 (earnings of \$ 1,823,354 in 2007) and is comprised of the following elements:

	December 31, 2008	December 31, 2007
	\$	\$
Share of operating results of Innergex Power Income Fund	(520,279)	1,062,694
Adjustments related to decrease in tax rates applicable to the investment in Innergex Power Income Fund	-	821,249
Amortization of intangibles	(1,173,214)	(83,571)
Adjustment related to the decrease of future income tax on intangibles	322,634	22,982
Share of net (loss) earnings	(1,370,859)	1,823,354

10. Goodwill

For the year ended December 31, 2008, the Corporation conducted an annual goodwill impairment test. The test was performed using a net present value of projects within the group of assets described in the accounting policy. Based on the result of this test, an impairment charge of \$3,604,865 was required in the development and management of sites segment.

11. Bank Loan

A subsidiary of the Corporation has an authorized credit facility which was increased during the year from \$ 20,000,000 to \$ 25,000,000 and secured by a hypothec on the universality of investments and receivables, excluding assets already pledged under non-recourse long-term debt. The credit facility is renegotiable annually and bears interest at bankers' acceptances ("BA") rate plus 400 basis points. As at December 31, 2008, \$ 9,750,000 of this credit facility was drawn as cash advances, \$ 7,321,700 was used for the issuance of letters of credit and \$ 4,174,385 was reserved as collateral to secure bond forward contracts. As at December 31, 2008, the unused and available portion of the bank credit facility was \$ 3,753,915. For the year ended December 31, 2008, the Corporation had an interest expense of \$26,916 (\$11,023 in 2007). These amounts are presented under other (revenues) and expenses on the consolidated statement of earnings. The Corporation also capitalized \$147,391 in interests paid on the bank loan (nil in 2007) under property, plant and equipment on the balance sheet. The credit facility is subject to financial and non-financial covenants that may restrict its availability. Refer to Note 28 (c) for subsequent event.

12. Accounts payable and accrued liabilities

	December 31, 2008	December 31, 2007
	\$	\$
Trade and accrued liabilities	11,574,506	13,704,194
Current portion of construction holdbacks	291,065	1,118,714
Accounts payable to an entity subject to significant influence	153,668	1,434
	12,019,239	14,824,342

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13. Derivative financial instruments

In order to mitigate the risk of any fluctuations in interest rates, the Corporation entered into nine bond forward contracts and an interest rate swap, for a total debt amount covered of \$ 198,127,084 (\$ 176,200,000 in 2007). As at December 31, 2008, the negative value of the outstanding bond forward contracts based on market rates is \$ 19,354,276 (negative \$ 3,501,225 in 2007) and the negative value of its interest rate swap is \$ 3,368,802 (negative \$ 1,455,974 in 2007). These amounts are accounted for on the balance sheet under derivative financial instruments and the variation in value is included in the statement of earnings under gain or loss on derivative financial instruments. The counterparties to the bond forward contracts and the interest rate swap contract are major financial institutions; the Corporation does not anticipate any payment defaults on their part.

Rutherford Creek Power Limited Partnership, a subsidiary of Innergex Power Income Fund, has agreed, following the expiry or termination of the Rutherford Creek power purchase agreement in June 2024, to pay to the Corporation royalties based on the achievement of certain revenue thresholds. As at December 31, 2008, the fair value of this financial instrument is \$ 764,208 (\$ 663,492 in 2007). This amount is accounted for on the balance sheet under other long-term assets and the variation in value is included in the statement of earnings under unrealized net (loss) gain on derivative financial instruments. The payment of the royalties is secured by the facility, but is subordinated to a \$ 50,000,000 term loan.

The following is a summary of the financial derivative instruments:

Derivative financial instruments	Royalties	Bond forward	Interest rate swap	Total
	\$	\$	\$	\$
Assets - derivative financial instruments				
As per balance sheet at December 31, 2006	-	-	-	-
Asset acquired on December 6, 2007	656,205	-	-	656,205
Year 2007's variation	7,287	-	-	7,287
Balance as at December 31, 2007	663,492	-	-	663,492
Current year's variation	100,716	-	-	100,716
Balance included in other long-term assets as at December 31, 2008	764,208	-	-	764,208
Liabilities - derivative financial instruments				
Balance as at December 31, 2006	-	-	-	-
Liabilities assumed on December 6, 2007	-	4,010,072	1,514,638	5,524,710
Year 2007's variation	-	(508,847)	(58,664)	(567,511)
Balance as at December 31, 2007	-	3,501,225	1,455,974	4,957,199
Current year's variation	-	15,853,051	1,912,828	17,765,879
Balance as at December 31, 2008	-	19,354,276	3,368,802	22,723,078
Minus:				
Current portion	-	19,354,276	1,057,692	20,411,968
Balance of long-term liabilities as at December 31, 2008	-	-	2,311,110	2,311,110

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14. Long-term debt

	December 31, 2008	December 31, 2007
	\$	\$
Glen Miller Power, Limited Partnership (a)	16,500,000	17,000,000
Umbata Falls Limited Partnership (b)	21,266,000	15,435,000
Innergex CAR, L.P. (c)	64,407,084	-
Ashlu Creek Investments Limited Partnership (d)	64,500,000	48,700,000
Deferred financing fees	(1,164,667)	-
	165,508,417	81,135,000
Current portion of long-term debt:		-
Glen Miller Power, Limited Partnership (a)	1,000,000	-
Umbata Falls Limited Partnership (b)	176,307	-
Innergex CAR, L.P. (c)	15,054,557	-
Deferred financing fees	(236,881)	-
	15,993,983	-
	149,514,434	81,135,000

(a) Glen Miller Power, Limited Partnership

The long-term debt relates to a loan made to provide long-term financing.

During 2006, the loan was converted to a term loan, consisting of sixty monthly blended payments of capital and interest based over a twenty-year period of amortization with a five-year term maturing in 2011. The capital repayments were waived for a five-year period unless the conditions required by the lender were not respected. The principal repayments were waived for as long as a threshold debt service coverage ratio was met. During the first quarter of 2008, this threshold was not met and, accordingly, principal repayments began during the third quarter of 2008 after an appropriate amortization schedule, consisting in a 5 year term loan, amortized over a period of 68 quarters starting July 1, 2008 with a final maturity date on December 19, 2025, was agreed upon with the lender. The term loan is set at a variable rate, which is equal to the BA rate plus 140 basis points for a total of 3.65 % as at December 31, 2008 (6.15 % in 2007), and the unamortized amount as at December 31, 2008 is \$16,500,000. The principal repayments for the next year will amount to \$1,000,000.

Glen Miller Power, Limited Partnership granted a first-ranking hypothec and security interest in the amount of \$ 20,400,000 affecting the universality of all property and assets related to Glen Miller Power, Limited Partnership project. The net book value of the property and assets as at December 31, 2008 is approximately \$ 24,300,000.

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Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(b) Umbata Falls Limited Partnership

A lender agreed to make available for the Umbata Falls hydroelectric facility a non-recourse construction loan in a principal amount not exceeding \$ 51,000,000 of which \$ 43,400,000 was drawn as at December 31, 2008 (the share of the Corporation is 49 %). The loan advances are made in the form of BA for periods of approximately 30, 60, 90 or 180 days. Interest on any BA equivalent advance shall be calculated at a rate per annum equal to the BA equivalent rate plus 100 basis points for a total of 2.66 % as at December 31, 2008 (5.61 % in 2007). Interest on any BA equivalent advance shall be payable in advance on the first day of the interest period. The principal repayments are expected to start in the 3rd quarter of 2009 and will amount to \$359,810 (the share of the Corporation is 49 %).

The lender agreed to make available until six months after commissioning, a revolving credit facility in a principal amount not exceeding \$ 1,000,000. This amount has not been used as at December 31, 2008 (same in 2007).

The lender also agreed to make available, a letter of credit facility in a principal amount not exceeding \$ 1,200,000, until six months after commissioning and thereafter in a principal amount not exceeding \$ 500,000 until five years after completion, which is defined as beginning six months after commissioning. As at December 31, 2008, an amount of \$ 1,180,875 (\$ 1,170,875 in 2007) has been used to secure three letters of credit (two in 2007).

The security constituted by the security documents comprises a valid and perfected first-ranking charge or security interest upon the interests of Umbata Falls Limited Partnership on all of the property and assets of the partnership and its nominees. As at December 31, 2008, the net book value of the property and assets of Umbata Falls Limited Partnership, totals approximately \$ 72,800,000 (the share of the Corporation is 49 %).

(c) Innergex CAR, L.P.

Lenders agreed to make available, for the Innergex CAR, L.P. wind power project, a non-recourse construction loan in a principal amount up to but not exceeding \$ 53,400,000. As at December 31, 2008, \$ 51,880,000 was drawn. The loan advances bear interest at a rate per annum equal to the BA equivalent rate, swapped at a rate of 3.45 %, plus an applicable margin of 150 basis points for a total of 4.95 % as at December 31, 2008 (nil in 2007). Including the financing fees, the effective rate raises up to 5.54%.

An amortization schedule, consisting in a 5 year term loan, amortized over a period of 74 quarters, was agreed with the lender and principal repayment started on December 31, 2008. The unamortized amount as at December 31, 2008 is \$ 51,607,084 and the principal repayments for the next year will amount to \$2,254,258.

The lenders also agreed to make available a letter of credit facility in an amount not to exceed \$ 833,000. As at December 31, 2008, an amount of \$832,200 has been used to secure one letter of credit.

The security constituted by the security documents comprises a deed of hypothec providing security for the payment and performance of all Innergex CAR, L.P.'s obligations and providing a lien on all the present and future real and personal property of Innergex CAR, L.P.

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As at December 31, 2008, the net book value of the property and assets of Innergex CAR, L.P. totals approximately \$ 81,000,000.

The lenders also agreed to make available to Innergex CAR, L.P. two short-term loans; i) the HQT substation loan and ii) the GST/PST loan.

i) HQT substation loan

The lenders made available a short-term loan, maturing on March 31, 2009, to Innergex CAR, L.P., for an amount up to but not exceeding \$ 7,974,000. As at December 31, 2008, \$ 7,300,000 was drawn and the loan was bearing interest at the BA rate plus 150 basis points for a total of 3.555 %. The Corporation will reimburse that loan upon reception of the substation reimbursement by Hydro-Quebec TransEnergie ("HQT"). See Note 5 for more details.

ii) GST / PST loan

The lenders also made available a short-term loan, maturing on March 31, 2009, to Innergex CAR, L.P., for an amount up to but not exceeding \$ 5,500,000. As at December 31, 2008, the loan was fully used and was bearing interest at the BA rate plus 150 basis points for a total of 3.555 %. The Corporation will reimburse that loan upon reception by the government agencies of the GST/PST paid on construction costs. See Notes 5 and 28 (d) for more details.

(d) Ashlu Creek Investments Limited Partnership

Lenders agreed to make available for the Ashlu Creek hydroelectric facility a non-recourse construction loan in a principal amount of up to but not exceeding \$ 110,000,000 of which \$ 64,500,000 have been drawn as at December 31, 2008. The loan advances are made in the form of BA pursuant to accommodation requests given by the borrower. Ashlu Creek Investments Limited Partnership shall pay interest on any BA equivalent advance at a rate per annum equal to the BA equivalent rate plus 100 basis points, for a total of 2.74 % as at December 31, 2008 (5.78 % in 2007). Interests on any BA equivalent advance shall be payable in advance on the first day of the interest period.

The lenders also agreed to make available a letter of credit facility ("LC Facility"), on a revolving basis by way of letters of credit in the principal amount not exceeding \$ 3,000,000, until the final maturity date of the LC Facility, which is the fifteenth anniversary of the term conversion date as defined in the credit agreement. As at December 31, 2008 an amount of \$ 2,879,054 (\$ 2,972,654 in 2007) has been used to secure five letters of credit.

This loan is secured by a demand debenture in the principal amount of \$ 175,000,000, creating a first-priority fixed and specific mortgage, charge and assignment of, and grant of a security interest in all the rights, titles and interest of Ashlu Creek Investments Limited Partnership and its General Partners in the project assets and all other assets, including a deed of hypothec granted by the same parties creating a first-priority fixed and specific hypothec with respect to the same personal property.

As at December 31, 2008, the net book value of the property and assets of Ashlu Creek Investments Limited Partnership, which is under construction, totals approximately \$ 119,800,000.

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(e) Principal repayments

As at December 31, 2008, the expected principal repayments required for the long-term debt in each of the forthcoming years are as follows:

	\$
2009	15,993,983
2010	6,078,546
2011	5,915,302
2012	6,175,544
2013	56,320,912
Thereafter	89,145,024
Total	179,629,311

The “Thereafter” amount includes the accrual for acquisition of long-term assets as it will be financed by issuance of long-term debt.

(f) Accrual for acquisition of long-term assets

The accrual for acquisition of long-term assets is defined as long-term debt commitments that have been secured and that will be drawn upon to finance the Corporation’s projects currently under construction or for which the construction is completed, but some costs remained to be paid. The accrual for acquisition of long-terms assets is made of the following:

	\$
Umbata Falls Limited Partnership	2,054,330
Innergex CAR, L.P.	1,520,000
Ashlu Creek Investments Limited partnership	10,546,564
	14,120,894

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15. Asset retirement obligations

Asset retirement obligations essentially derive from the Corporation's obligation to remove the assets from the wind power facilities after the term of the land leases. The wind farm facilities are constructed on lands under leases that expire 25 years after the commencement of electricity delivery. The Corporation estimates that the undiscounted payments required to settle the obligations over a period of 25 years, being in accordance with the land leases, which allows a two-year period after the end of the leases to put back the lands as they were before the commencement of the project, will total \$ 3,260,359 as follows:

	2008
	\$
2033	3,260,359

The rate at which the cash flows have been discounted is 8.25 %.

The change in the liability during the year is as follows:

	2008
	\$
Balance, beginning of year	-
Liability incurred	449,333
Liability settled	-
Accretion expense	4,119
Balance, end of year	453,452

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16. Income taxes

The provision for income taxes shows an effective income tax rate different from the rate computed under Canadian income tax legislation. The reasons for the difference between the statutory rate and the effective rate are as follows:

	December 31, 2008	December 31, 2007
	\$	\$
(Loss) earnings before provision for income taxes	(45,647,946)	6,192,430
Losses allocated to minority interests	5,000	-
(Loss deductible) earnings taxable	(45,642,946)	6,192,430
Canadian statutory tax rate	30.90%	32.02%
Provision for income taxes computed under the statutory tax rate	(14,103,670)	1,982,816
Earnings taxable at a lower rate than the Canadian statutory tax rate	1,114,045	(946,822)
Reduction in future income tax rates	-	(464,274)
Non-deductible expenses	1,255,340	48,984
Others	6,156	25,350
Provision for income taxes	(11,728,129)	646,054

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The tax impact of temporary differences resulting in material future tax assets or liabilities is as follows:

	December 31, 2008	December 31, 2007
	\$	\$
Future income tax assets		
Non-capital losses	4,287,401	4,228,024
Excess of tax basis of project development costs over their carrying value	2,984,900	-
Excess of tax basis over the carrying value of investments into subsidiaries and on entity subject to significant influence	791,180	-
Excess of tax basis of financing fees over their carrying value	3,003,245	3,983,531
Excess of tax basis of derivative financial instruments over their carrying value	6,893,494	1,358,418
Future income tax assets	17,960,220	9,569,973
Future income tax liabilities		
Excess of carrying value of intangible assets over their tax basis	7,799,330	11,566,009
Excess of carrying value of investment into subsidiaries and on entity subject to significant influence over their tax basis	-	683,789
Excess of carrying value of property, plant and equipment over their tax basis	4,570,187	1,391,750
Excess of carrying value of project development costs over their tax basis	-	530,671
Future income tax liabilities	12,369,517	14,172,219
Net future income tax (liabilities) assets	5,590,703	(4,602,246)

Reported in the financial statements

	December 31, 2008	December 31, 2007
	\$	\$
Long-term future income taxes assets	10,522,080	3,214,616
Long-term future income taxes liabilities	(4,931,377)	(7,816,862)
Net future income taxes assets (liabilities)	5,590,703	(4,602,246)

As at December 31, 2008, the Corporation and its subsidiaries have income tax losses of approximately \$ 14,500,000 (\$ 15,400,000 in 2007), which may be used to reduce future years' taxable income. These losses expire up to 2029.

INNERGEX RENEWABLE ENERGY INC.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

17. Share capital

(a) Share capital

Authorized

The authorized capital of the Corporation consists of an unlimited number of common shares and an unlimited number of preferred shares, non-voting, retractable and redeemable.

The following table shows the common shares issued:

	December 31, 2008		December 31, 2007	
	Number	\$	Number	\$
Beginning of year	23,500,000	228,807,842	-	-
Issued on December 4, 2007, upon conversion of 8,081 Class B Shares	-	-	1,942,001	9,269
Issued on December 6, 2007 by a public offering	-	-	10,455,000	115,005,000
Issued on December 6, 2007 by a private placement	-	-	11,102,999	122,132,989
Issuance costs reduction (incurred) (net of \$ 294,652 of income tax, \$ 3,698,347 in 2007)		664,501		(8,339,416)
End of year	23,500,000	229,472,343	23,500,000	228,807,842

In 2008, the issuance costs accounted for in the initial public offering were reduced by a net amount of \$ 664,501. This resulted in an increase in share capital.

On December 4, 2007 prior to the closing of the initial public offering, the Corporation amended its share capital as follows:

- by creating an unlimited number of common shares;
- by creating an unlimited number of preferred shares, issuable in series;
- by converting the 8,081 issued Class B shares into 1,942,001 common shares, on the basis of 240.3169162 common shares for each issued Class B share;
- by cancelling the Class B shares as a class; and
- the Corporation also redeemed the Class A share for \$ 1 and cancelled the Class A shares as a class.

Prior to December 4, 2007, the authorized capital was comprised of:

Class A shares, voting and non-participating. In the event of liquidation, dissolution or wind up of the Corporation, the holders of Class A shares were entitled to receive an amount equal to the amount paid thereon per share.

Class B shares, non-voting, participating and ranked after Class A in the event of liquidation, dissolution or wind up of the Corporation.

INNERGEX RENEWABLE ENERGY INC.

Notes to the Consolidated Financial Statements

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On March 1, 2007, the Corporation issued 2,424 shares representing 582,528 Class B shares after conversion for a cash consideration of \$ 2,424.

All share and per share amounts presented herein have been adjusted to reflect the subdivision of shares for all periods presented.

(b) Contributed surplus and stock option plan

	December 31, 2008	December 31, 2007
	\$	\$
Beginning of year	130,302	-
Fair value of stock-based compensation	1,563,627	130,302
Stock options exercised	-	-
End of year	1,693,929	130,302

The Corporation has a stock option plan providing for the granting of options by the Board of Directors to employees, officers, directors and certain consultants of the Corporation and its subsidiaries to purchase common shares. Options granted under the stock option plan will have an exercise price of not less than the market price of the common shares at the date of grant of the option, calculated as the volume weighted average trading price of the common shares on the TSX for the five trading days immediately preceding the date of grant.

The maximum aggregate number of shares that may be subject to options under the stock option plan will be 2,350,000, representing 10 % of the issued and outstanding common shares. The number of common shares issuable to insiders under the stock option plan cannot at any time exceed 10 % of the issued and outstanding common shares and cannot within any one-year period exceed 10 % of the issued and outstanding common shares. Any common shares subject to an option that expires or terminates without having been fully exercised may be made the subject of a further option. The number of common shares issuable to non-executive directors of the Corporation under the stock option plan cannot at any time exceed 1 % of the issued and outstanding common shares.

Options must be exercised during a period established by the Board of Directors, which may not be greater than ten years after the date of grant. Subject to the discretion of the Board of Directors, options granted under the stock option plan will vest in four equal amounts on a yearly basis over the four years following the grant date.

	December 31, 2008		December 31, 2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Outstanding - beginning of year	1,410,000	11	-	-
Granted	-	-	1,410,000	11
Exercised	-	-	-	-
Cancelled	-	-	-	-
Outstanding - end of year	1,410,000	11	1,410,000	11
Options exercisable - end of year	352,500	11	-	-

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The following options were outstanding and exercisable as at December 31, 2008.

	Outstanding		Exercisable		Year of maturity
	Number of options	Exercise price	Number of options	Exercise price	
		\$		\$	
2008	1,410,000	11	352,500	11	2017

The Corporation applies the fair value method of accounting for options granted to senior management, which is estimated using the Black-Scholes option-pricing model. An amount of \$ 1,563,627 was recorded as compensation costs and credited to contributed surplus of the Corporation to account for the options granted during the year ended December 31, 2007 (\$ 130,302 in 2007). The following assumptions were used to estimate the fair value, at the date of grant, of the options issued to grantees:

Risk-free interest rate	4.3 %
Expected annual dividend	nil
Expected life of options	4 to 7 years
Expected volatility	29.7 % to 36 %
Weighted average fair value per option	\$ 4.44

For the purpose of compensation expense, stock-based compensation is amortized to expense on a straight-line basis over the vesting period of four years.

18. Warrants

On August 29, 2008 the Corporation issued 200,000 warrants, for a cash consideration of \$ 175,000, entitling the holders to subscribe to up to 200,000 common shares. The warrants are exercisable within 24 months of the date of issuance at a strike price of \$ 12.50 per warrant and will expire on August 29, 2010. All the warrants were still outstanding as at December 31, 2008.

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Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

19. Refund of refundable dividend tax on hand

As long as the Corporation remained classified as a Canadian-controlled private corporation under the *Income Tax Act*, a portion of its income taxes was recoverable when taxable dividends were paid to shareholders. These taxes were charged to retained earnings and recoveries were credited to retained earnings. The amount of accumulated refundable taxes of \$ 273,410 was recovered as at December 31, 2007.

20. Additional information to the Consolidated Statements of Cash Flows

Changes in non-cash operating working capital items

	December 31, 2008	December 31, 2007
	\$	\$
Accounts receivable	(3,800,148)	2,205,730
Prepaid and others	(913,562)	79,017
Accounts payable and accrued liabilities	(5,524,393)	28,505
	(10,238,103)	2,313,252
<i>Additional information</i>		
Interest paid	4,575,488	266,870
Income taxes paid	174,016	154,822
<i>Non-cash transactions</i>		
Reduction of issuance costs	959,153	-
Unpaid property, plant and equipment	10,264,473	9,129,723
Unpaid development costs	1,109,387	664,847
Accrual for acquisition of long term assets	14,120,894	-

The Corporation recorded a \$ 1,140,000 expense in impairment of project development costs in respect of an accrual for a termination payment related to an impaired project.

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Notes to the Consolidated Financial Statements

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21. Related party transactions

The Corporation has entered into the following transactions with entities under significant influence and related parties:

	December 31, 2008	December 31, 2007
	\$	\$
Management Agreement revenues (i)	2,039,135	1,605,372
Administration Agreement revenues (ii)	109,957	108,858
Services Agreement (iii)	-	-
Other services (iv)	59,600	-
Management fees revenues (v)	-	4,333,846
	2,208,692	6,048,076
Incentive sharing agreement expense (vi)	-	89,952
Receivables from entities subject to significant influence:		
Accounts receivable	812,955	407,556
Distributions receivable	393,543	379,923
Advance receivable	-	995,000
Non-interest bearing demand notes receivable from subsidiaries of Innergex Power Income Fund (vii)	-	14,008,567
	1,206,498	15,791,046
Accounts payable to a company subject to significant influence	153,688	18,915

These transactions were made in the normal course of business and have been recorded at the exchange amount, which is the amount of the consideration established and agreed to by the related parties.

(i) Management Agreement

Under the terms of the Management Agreement, the Corporation provides services to Innergex Power Trust ("IPT") a wholly-owned subsidiary of Innergex Power Income Fund ("the Fund"). The Corporation (i) supervises the operations of the facilities and administers the investments of IPT; (ii) assists IPT in the development, implementation and monitoring of a strategic plan for IPT; (iii) assists IPT in developing an annual business plan, which includes operational and capital expenditure budgets; (iv) assists IPT in developing acquisition strategies and investigation of potential acquisitions and analysis of feasibility of potential acquisitions; (v) supervises the carrying out of acquisitions, the disposition of assets and related financings required for such transactions; (vi) assists in connection with any financing of IPT or the Fund; and (vii) assists IPT with the preparation, planning and coordination of trustees' meetings.

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Notes to the Consolidated Financial Statements

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Under the Management Agreement, the Corporation is entitled to reimbursement of its regular operating expenses incurred in connection with its duties, up to a maximum annual amount, which is subject to an annual increase equal to the inflation rate of the Consumer Price Index ("CPI"). The maximum annual chargeable amount for regular services was established at \$ 939,895 for the year ending December 31, 2008 (\$ 887,184 in 2007). Amounts totaling \$ 251,756 (\$ 272,381 plus reimbursement of costs of \$123,293 in 2007) have been invoiced for services rendered for the acquisition of IHI Hydro Inc. and the Baie-des-Sables and Anse-à-Valleau wind farms. An amount of \$ 112,377 (\$ 111,492 in 2007) has also been invoiced for additional services not included in the Management Agreement.

The Corporation is also entitled to an annual incentive fee based on increases in distributable cash per trust unit of the Fund. The incentive fee is equal to 25 % of the annual distributable cash per trust unit of the Fund in excess of \$ 0.925 per trust unit. The incentive fee related to increases in distributable cash per trust unit of the Fund is intended to provide the Corporation with an incentive to maximize distributable cash per trust unit. For the year ended December 31, 2008, \$ 735,107 were received in incentive fees (\$ 334,315 in 2007).

The Management Agreement, which had an initial twenty-year term, was renegotiated in 2007 and will now expire in July 2030; it is subsequently renewable for successive five-year periods. The incentive fee is calculated on the distributable cash before income taxes related to the taxation of public trusts amendments adopted in 2007. The Management Agreement includes a reciprocal right to terminate the contract by paying monetary compensation to IPT.

(ii) **Administration Agreement**

Under the terms of the Administration Agreement, the Corporation provides certain administrative and support services to the Fund, including those necessary to (i) ensure compliance by the Fund with continuous disclosure obligations under applicable securities legislation; (ii) provide investor relation services; (iii) provide or cause to be provided to unitholders of the Fund all information to which unitholders are entitled, including relevant information with respect to income taxes; (iv) call and hold meetings of unitholders of the Fund and distribute required materials, including notices of meetings and information circulars, in respect of all such meetings; (v) provide for the calculation of distributions to unitholders of the Fund; (vi) attend to all administrative and other matters arising in connection with any redemptions of trust units of the Fund; and (vii) ensure compliance with the Fund's limitations on non-resident ownership.

All operating expenses incurred by the Corporation in connection with the provision of these services are for the account of the Fund up to a maximum annual amount, which is subject to an annual increase equal to the inflation rate of the CPI. The maximum annual chargeable amount was established at \$ 109,957 for the year ending December 31, 2008 (\$ 108,858 in 2007). The Corporation is also entitled to reimbursement of reasonable out-of-pocket expenses incurred on behalf of the Fund such as legal and auditing expenses. The Administration Agreement, which had an initial twenty-year term, was renegotiated in 2007 and will now expire in July 2030; it is subsequently renewable for successive five-year periods.

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(iii) Services Agreement

Under the Services Agreement, the Corporation supervises the Fund's facilities in accordance with prudent industry practices and with an annual operating plan developed by the Corporation and approved by the Fund. The services provided by the Corporation include implementing and making continuous improvements to the preventive maintenance program; monitoring the Fund's facilities; making routine scheduled inspections; carrying out routine scheduled and unscheduled maintenance required for the proper operation of the Fund's facilities producing, maintaining and storing all operating and maintenance logs; maintaining all facilities-related drawings and specifications; preparing accurate accounting and administrative records and reports; maintaining licenses, approvals, and permits; and implementing additional measures relating to the operation, maintenance, and management of the Fund's facilities, including carrying out major overhauls and making capital asset improvements as required. The Services Agreement, which had an initial 20-year term, was renegotiated in 2007 and will now expire in July 2030; it is subsequently renewable for successive five-year periods.

(iv) Other services

The Corporation also provides services to the operators of the Anse-à-Valleau and the Baie-des-Sables wind farms. These fees are in connection to follow-ups on construction and operations of the wind farms. For the year ended December 31, 2008, \$ 59,600 was charged as other services (nil in 2007). The amounts shown are equal to the 38 % portion of the projects owned by the Fund.

(v) Management fee revenues - Prior to December 6, 2007

All operating costs not recovered by Innergex Renewable Energy Inc. were charged to Innergex II Income Fund.

(vi) Incentive Sharing Agreement - Prior to December 6, 2007

Under the terms of the Incentive Sharing Agreement, the Corporation was obliged to pay 27.5 % of the incentive received under the Management Agreement to Innergex II Income Fund.

(vii) Non-interest bearing demand notes receivable from subsidiaries of Innergex Power Income Fund

The net working capital acquired with Innergex II Income Fund (see Note 4b) included non-interest bearing demand notes payable from subsidiaries of Innergex Power Income Fund. During the year, the balances of the demand notes were paid.

22. Financial instruments

(a) Fair value of financial instruments

Fair value estimates are made of specific points in time using available information about the financial instrument in question. These estimates are subjective in nature and often cannot be determined precisely.

The fair value of cash and cash equivalents, accounts receivable, bank loan and accounts payable and accrued liabilities approximates their carrying values due to their short-term maturities.

The carrying values of the floating-rate long-term debts (including the accrual for acquisition of long-term assets) are approximately \$ 41,000,000 higher than their fair market values taking into account the swap curve increased by a 4 % risk premium.

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(b) Interest rate risk

The Corporation's interest rate risk management's objective is to mitigate risk exposures to a level consistent with its risk tolerance. Interest rate risk is the risk related to the earnings of the Corporation that arises from fluctuation in interest rates and the degree of volatility of these rates. During the course of business, the Corporation uses credit facilities to finance its activities. The Corporation uses interest rate bond forward contracts to reduce its exposure to interest rate risk. The Corporation does not hold or issue financial instruments for trading purposes.

During 2008, the Corporation entered into an amortizing interest rate swap contract, regarding the Innergex CAR, L.P. long-term debt, in an amount of \$53,400,000, maturing in March 2027, allowing it to eliminate its exposure to floating interest rates. This contract allows the Corporation to pay a fixed interest rate equivalent to 3.45 % until its maturity.

The portion of the Corporation's floating-interest long-term debt not covered by a swap contract amounts approximately to \$102,300,000. A 1 % fluctuation in interest rates would have an annual impact of approximately \$1,023,000 on the Corporation's results before taxes. To mitigate the interest rate risk on the non-swapped debt, the Corporation entered into bond forwards contracts. The value of these contracts varies inversely with interest rates. It is the intention of the Corporation to call or extend these contracts or enter into new contracts in order to match the maturity of the underlying debt and protect the economic value of the projects.

The terms of the contracts are as follows:

Face value of contracts reducing risk of interest rate fluctuations	December 31, 2008	December 31, 2007
	\$	\$
<i>Bond forwards</i>		
Six bond forwards (five in 2007) with a yield from 3.94 % to 4.74 %, maturing on March 17, 2009. (See Note 28 (e))	85,000,000	80,000,000
A bond forward with a yield at 4.82 %, maturing on March 16, 2009, with a collateral of \$ 4,591,385 (\$ 2,300,000 in 2007) that was put down towards the bond. (See Note 28 (e))	25,000,000	25,000,000
Two bond forwards (two in 2007) with a yield from 4.39 % to 4.63 %, maturing on January 27, 2009 (June 25, 2008 in 2007). (See Note 28 (b))	35,000,000	35,000,000
	145,000,000	140,000,000
<i>Interest rate swap</i>		
An interest rate swap bearing interest at 4.10 %, maturing on June 1, 2009. That swap was cancelled during 2008 and a loss of \$2,410,000 was realized.	-	36,200,000
An amortizing interest rate swap bearing interest at 3.45 %, maturing on March 31, 2027 (See Note 14 (c) for more details).	53,127,084	-
	198,127,084	176,200,000

INNERGEX RENEWABLE ENERGY INC.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

(c) Credit risk

The credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract.

The cash and cash equivalents are held at large Canadian financial institutions with high credit ratings.

The accounts receivable and their related risks are described in more details in Note 5.

The derivative financial instruments and their related risks are described in more details in Note 13.

(d) Liquidity risk

The liquidity risk is related to the sufficiency of liquid assets that permits the Corporation to meet the payments of its liabilities as they occur. Certain financial restrictive clauses could prevent the Corporation from having access to the cash and cash equivalents of its subsidiaries.

The Corporation has a negative working capital at year-end. However, it is not expected that the bank loan will be repaid within the next year (see Note 28 (c)). In addition, most of the derivative financial instruments are expected to have their term extended (see Notes 28 (b) and (e)). The bank loan facility, described in Note 11, also allows the Corporation to obtain additional funds on short notice if needed. See Note 2 - *Liquidity* for additional information.

The table that follows presents an analysis of the maturity of the financial liabilities:

	Up to 3 months	More than 3 months but less than a year	More than a year but less than five years
	\$	\$	\$
Bank loan	9,750,000	-	-
Accounts payable and accrued liabilities	10,768,634	1,250,605	-
Derivative financial instrument short-term	19,596,660	815,308	-
Derivative financial instrument long-term	-	-	2,311,110
Construction holdbacks	-	-	5,057,542
Current portion of long-term debt	13,832,626	2,161,357	-
Long-term debt	-	-	65,556,104
Total	53,947,920	4,227,270	72,924,756

(e) Market risk

The market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk and interest rate risk, which are described separately, and the other price risk.

The sale of electricity is made pursuant to long-term agreements where the offtakers are committed to take and pay for the total production, up to certain annual limits. The inflation clauses of the sale price of electricity are normally allowing the Corporation to cover its increases of variable operating expenses.

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(f) Currency risk

The currency risk relates to fluctuations in the US dollar against the Canadian dollar. The Corporation does incur expenses, related to the construction of wind farms, payable in US dollars. However, the price at which it will sell its electricity to Hydro-Quebec is adjusted to reflect the fluctuations in the US dollar and as such the Corporation's net financial risks is minimal.

23. Commitments and guarantee

a. Delivery of electricity pursuant to the electricity purchase agreements

The Corporation's subsidiaries or joint ventures are contractually committed to sell all of the electricity that will be produced to either British Columbia Hydro and Power Authority, Hydro-Quebec or Ontario Power Authority for periods extending from 20 to 40 years after commissioning.

Glen Miller Power, Limited Partnership has committed to sell all of the electricity it generates to Ontario Power Authority under a long-term contract expiring in 2025.

Umbata Falls Limited Partnership has committed to sell all of the electricity it generates to Ontario Power Authority under a long-term contract expiring in 2028.

Innergex CAR, L.P. has committed to sell all of the electricity it generates to Hydro-Quebec under a long-term contract expiring in 2028.

b. Wind farm facilities

Construction agreements

Subsidiaries or joint ventures of the Corporation entered into electricity purchase agreements with Hydro-Quebec. In order to fulfill its obligation under these agreements, the Corporation will need to develop and construct wind powered facilities. Collectively with TransCanada Energy Ltd. ("TransCanada") (the share of the Corporation is 38 %), the Corporation entered into various agreements related to the acquisition of the turbines, the construction and the operation of the wind farms.

The subsidiaries or joint ventures are also committed under options on leases for projects under development.

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Separation agreement

The Corporation is an undivided owner of a 38 % interest in four wind projects. Furthermore, the Corporation indirectly owns, through its 16.1 % investment in units of the Fund, a portion of the Fund's 38 % interest in two wind farms. TransCanada is the other undivided owner of the remaining 62 % interest in all of the six wind projects. The Corporation and TransCanada have entered into a separation agreement which describes the process that will apply should one of the Corporation or TransCanada request separation of the wind projects held in undivided joint ownership. Once two of the projects have reached final completion, the separation agreement allows one of the undivided owners, within the 31st and the 60th day following the date of final completion of the second project (i.e., the Anse-à-Valleau wind farm), to request the separation of all of the wind projects so held in undivided joint ownership. Should a request for separation be presented, the Fund will be allocated the wind farm that it holds in undivided joint ownership having the lowest fair market value, and the other will be attributed to TransCanada. The four remaining projects will be allocated between the Corporation and TransCanada, based on the total number of MW of these projects and their anticipated final completion dates. As such, each of the Corporation and TransCanada would then own 100 % of some of the four projects, which would be close to their current respective overall interests in the four projects. In each case, the parties will then each have to pay an amount to compensate for the difference in value.

c. Glen Miller facility

Lease agreement

Glen Miller Power, Limited Partnership entered into a thirty-year lease agreement ending in December 2035 for the site that is in commercial operation. The lease has a 15 year extension option upon terms and conditions to be negotiated.

Glen Miller Power, Limited Partnership is committed to remit the facility to the lessor of the site, at the end of the lease agreement, for no consideration.

d. Umbata Falls Limited Partnership

Construction contracts

Umbata Falls Limited Partnership entered into several contracts in order to construct an hydroelectric power-generating facility for the site that is now in commercial operation.

Dissolution of the Partnership

Twenty-five years after the beginning of the operations, the Partnership will be dissolved. Upon the dissolution of the Partnership, the property and assets of the Partnership shall be transferred to the other partner for no consideration.

e. Ashlu Project

Construction contracts

Ashlu Creek Investments Limited Partnership entered into several contracts in order to construct an hydroelectric power generating facility.

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Participation agreement

Pursuant to an agreement with Ashlu Creek Investments Limited Partnership, the Squamish First Nation is entitled to a royalty based on revenues of the Ashlu Creek Project commencing on the commercial in-service date. The Squamish First Nation is also entitled to an incremental share of gross revenues exceeding a yearly threshold of gross revenues set out in the agreement. The agreement also requires the assets of the Ashlu Creek Project to be transferred to the Squamish First Nation for a nominal price after 40 years of commercial operation.

f. Fitzsimmons Creek Hydro Limited Partnership

Construction contracts

Fitzsimmons Creek Hydro Limited Partnership entered into several contracts in order to construct an hydroelectric power-generating facility.

g. Kwoiek Creek Resources Limited Partnership

Construction agreement

Following a satisfactory result from the interconnection study, the Corporation will pay to Kwoiek Creek Resources Inc., a non-related company, a compensation on the first day of the second year of the construction phase.

Royalty agreement

Kwoiek Creek Resources Limited Partnership entered into an agreement to pay to Kwoiek Creek Resources Inc. an annual royalty which is based on a percentage of the gross revenues, less project costs, for the first 20 years after the date of commencement of commercial operations of the Kwoiek Creek Project and an increased royalty for the 20 years thereafter.

For the first 20 years of the operating phase, the partnership will not pay any interest on its subordinated debt nor any distribution on the preferred units, which are owned by the Corporation, unless the royalty has been paid.

Dissolution of the partnership

Forty years after the beginning of the operations, Kwoiek Creek Resources Limited Partnership will be dissolved (unless otherwise dissolved at an earlier date). Upon the dissolution, the property and assets shall be distributed to the other Partner.

h. Operating leases

The Corporation is engaged under long-term operating leases of premises which will end in 2011 and 2012.

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i. Summary of commitments

As at December 31, 2008, expected scheduling of commitments payments are:

	Hydroelectric production	Wind farms production	Development and management of sites	Total
	\$	\$	\$	\$
2009	91,000	894,929	35,028,411	36,014,340
2010	93,274	912,736	6,768,296	7,774,306
2011	95,606	948,321	1,461,823	2,505,750
2012	97,997	60,966	649,948	808,911
2013	100,446	62,095	2,000	164,541
Thereafter	2,971,650	2,470,273	134,000	5,575,923
Total	3,449,973	5,349,320	44,044,478	52,843,771

24. Capital Disclosures

The Corporation's objectives when managing its capital are twofold: i) to maintain sufficient cash and cash equivalents to pursue its growth strategy; and, ii) to maintain adequate financial leverage and manage financial risks.

The Corporation's capital is composed of cash and cash equivalents, bank loans, long-term debts and shareholders' equity.

The Corporation uses equity primarily to finance the development of projects. The Corporation uses long-term debt to finance the construction of its facilities. The Corporation expects to finance 70 % to 85 % of its construction costs through non-recourse long-term debt financing.

Future development and construction of new facilities and the development of the development projects and the prospective projects and other capital expenditures will be financed out of cash generated from the Corporation's operating facilities, investment in the Fund, borrowings and/or issuance of additional equity. To the extent that external sources of capital, including issuance of additional securities of the Corporation, become limited or unavailable, the Corporation's ability to make necessary capital investments to construct new or maintain existing project facilities will be impaired. There is no certainty that sufficient capital will be available on acceptable terms to fund further development or expansion.

Following the renewal of the bank loan described in Note 28 (c), the Corporation needs to maintain a minimum tangible net worth and a margining requirement ratio. If the ratios are not met, the lender has the ability to recall the bank loan.

Regarding the long-term debt of Glen Miller, the Corporation needs to maintain a minimum debt coverage ratio. If the ratio is not met, the lender has the ability to recall the debt.

All debt covenants are monitored on a regular basis by the Corporation.

The Corporation and its subsidiaries met all the financial and non-financial conditions related to their credit agreements except as disclosed in Note 14 (a).

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The Corporation's capital management objectives, policies and procedures have remained unchanged since the last period.

25. Segment Information

The Corporation has three reportable segments: (a) hydroelectric production (b) wind power production and (c) development and management of sites.

The hydroelectric production and the wind power production segments sell electricity produced from hydroelectric and wind farm facilities to publicly owned utilities. The development and management of sites segment explores potential sites, develops them to the operational stage and manages them.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Corporation evaluates performance based on earnings (loss) before interest, income taxes, depreciation and amortization and other items. The Corporation accounts for inter-segment and management sales at cost. Any transfers of assets from the development and management of sites segment to the hydroelectric production segment or the wind power segment are accounted for at cost.

The Corporation's reportable segments conduct their operations and activities using different teams, as each segment requires different skills.

	Year ended December 31, 2008			Total
	Hydroelectric production	Wind power production	Development and management of sites	
	\$	\$	\$	\$
Revenues from external customers	3,594,469	1,336,989	935,077	5,866,535
Operating expenses	525,094	88,880	-	613,974
Operating income	3,069,375	1,248,109	935,077	5,252,561
General and administrative expenses	48,303	73,056	6,506,876	6,628,235
Earnings (losses) before interest, income taxes, depreciation and amortization and other items	3,021,072	1,175,053	(5,571,799)	(1,375,674)
Long-term assets	62,069,217	83,083,645	259,804,429	404,957,291
Goodwill	733,000	2,104,000	28,379,790	31,216,790
Total assets	63,768,010	102,839,825	268,440,565	435,048,400
Acquisitions of long-term assets	468,199	-	135,998,124	136,466,323

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Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

During the year transfers of assets (from) to the segments, upon commissioning of the Umbata Falls and the Carleton facilities, were the following:

	\$	\$	\$	\$
Long-term assets	37,406,908	83,441,351	(120,848,259)	-
Goodwill	733,000	2,104,000	(2,837,000)	-
Total assets	38,345,259	103,197,530	(141,542,789)	-

Year ended December 31, 2007				
	Hydroelectric production	Wind power production	Development and management of sites	Total
	\$	\$	\$	\$
Revenues from external customers	168,673	-	7,880,169	8,048,842
Operating expenses	50,076	-	-	50,076
Operating income	118,597	-	7,880,169	7,998,766
General and administrative expenses	2,855	-	6,311,119	6,313,974
Earnings before interest, income taxes, depreciation and amortization and other items	115,742	-	1,569,050	1,684,792
Long-term assets	25,313,901	-	263,349,920	288,663,821
Goodwill	-	-	30,552,578	30,552,578
Total assets	25,571,910	-	317,687,597	343,259,507
Acquisitions of long-term assets	-	-	4,480,188	4,480,188

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Notes to the Consolidated Financial Statements

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There was no wind power production segment in 2007 as it was commissioned in 2008 after being transferred from the development and management of sites segment.

26. Investments in joint ventures

Joint ventures' activities

The consolidated financial statements of the Corporation include its proportionate share of assets, liabilities, revenues and expenses of the joint ventures' activities. The amounts included in these financial statements, with respect to joint ventures, are as follows:

	December 31, 2008	December 31, 2007
	\$	\$
Assets		
Current	18,667,413	3,736,806
Long-term	104,121,238	54,084,421
	122,788,651	57,821,227
Liabilities		
Current	5,232,256	3,233,752
Long-term	26,894,660	16,890,974
	32,126,916	20,124,726
Earnings		
Revenues	1,839,992	10,419
Derivative financial instruments	(2,201,561)	41,513
Expenses	(716,642)	(72,831)
Income taxes	(4,701)	-
Net loss	(1,082,912)	(20,899)
Cash Flows		
Operating activities	(13,203,714)	(639,111)
Financing activities	(10,003,686)	382,336
Investing activities	(46,333,648)	(2,264,237)
<i>Non-cash transactions</i>		
Unpaid property, plant and equipment	3,468,010	3,065,678
Unpaid development costs	16,588	290,081
Accrual for acquisition of long term assets	3,574,330	-

27. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

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28. Subsequent Events

(a) *Fitzsimmons financing*

On March 24, 2009, the Corporation and a Lender executed a committed term sheet regarding the financing of the Fitzsimmons Creek Hydro LP project. Completion of this financing is subject to further syndication and is expected to close before the end of the second quarter of 2009.

(b) *Umbata Falls Limited Partnership derivative financial instrument*

On January 28, 2009, Umbata Falls Limited Partnership terminated its \$35,000,000 bond forward contracts for a cash consideration of \$3,055,000 and an amount of \$1,660,000 was rolled in an interest rate swap. Umbata Falls Limited Partnership entered into an amortizing swap contract maturing in June 2034 allowing it to pay a fixed interest rate of 4.108% effective on June 30, 2009.

(c) *Bank loan*

On February 27, 2009, the Corporation executed a restructured 364-day revolving credit facility. The maximum amount available was increased from \$ 25,000,000 to \$ 30,000,000.

(d) *Innergex CAR, L.P.*

On February 27, 2009, Innergex CAR, L.P. received payments for the commodity taxes from the government agencies and, accordingly, the GST/PST loan was reimbursed.

(e) *Bond forwards*

On March 16, 2009, the \$ 25,000,000 bond forward contract described in Note 22 (b) was renewed until June 16, 2009.

On March 17, 2009, the six bond forwards contracts described in Note 22 (b), totalling \$ 85,000,000, were renewed until March 31, 2009. (See Note 2 – *Liquidity*).

Une version française du présent rapport annuel est disponible auprès du service des Relations avec les investisseurs de la société.

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